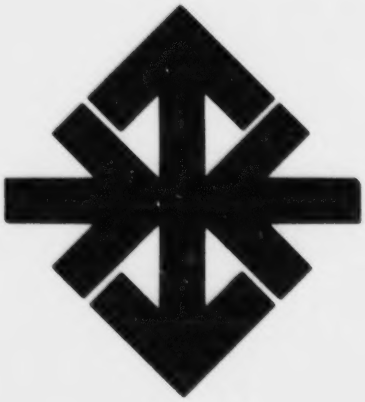
Saskatchewan
Local Government
Finance
Commission

Final Report of the Local Government Finance Commission

September, 1986



ERRATUM

FINAL REPORT OF THE LOCAL GOVERNMENT FINANCE COMMISSION

Page 149 - Footnote 7 - Assessment per student should read $26,762 for Division "A", and $7,479 for Division "B".

Saskatchewan

Saskatchewan
Local Government
Finance
Commission

3211 Albert Street
Regina, Canada
S4S 5W6

September, 1986

Honourable J. Gary Lane, Q.C., Chairman
Cabinet Committee on Local Government Finance
Room 312
Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

We have the honour to submit the **Final Report of the Local Government Finance Commission.**

The Commission had submitted three earlier reports:

- **Interim Report of the Local Government Finance Commission, (January, 1985).**
- **Alternative Local Sources of Revenue and Utilization of the Property Tax Base, (September, 1985).**
- **Property Assessment in Saskatchewan, (September, 1985).**

While this **Final Report** makes occasional reference to these earlier reports, in the main, it does not duplicate the material covered in them. The Commission considers these earlier reports to be integral components of its overall findings.

The Commission has made an extensive number of recommendations for change, improvement, and reform. The Commission is confident that if implemented, the recommendations would strengthen local governments, improve their financing, and improve the fairness in the distribution of the tax load.

Respectfully submitted,

R L Clayton
Ray Clayton
Chairman

John Wright
John Wright
Commissioner

L E O'Shaughnessy
Lol O'Shaughnessy
Commissioner

Herve Langlois
Herve Langlois
Commissioner

Nick Volk
Nick Volk
Commissioner

Bob Linner
Commissioner

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PREFACE

The Local Government Finance Commission was established by the Government of Saskatchewan under **The Public Inquiries Act** by Order-in-Council #635/84, dated May 23, 1984. The Commission was given a two year mandate to inquire into a broad range of issues relating to the financing of local governments and to identify options and make recommendations for addressing those issues.

Among the matters examined by the Commission were:

- capital requirements and funding mechanisms;
- provincial-municipal revenue sharing;
- financing elementary and secondary education;
- property tax structure;
- property tax collection processes;
- assessment principles and processes;
- the business tax;
- role of property tax rebate programs;
- grants and surcharges of the Saskatchewan Power Corporation;
- property tax exemptions and grants-in-lieu of taxes;
- alternative revenue sources;
- local funding of hospitals, the hospital revenue tax, and the public health levy;
- local funding of libraries, and the library funding formula;
- tax abatements;
- commercial/industrial property tax sharing;
- possible shifting of program responsibilities;
- urban/rural balance of taxation;
- northern Saskatchewan;
- debt financing agencies;
- variable mill rates; and
- financial management.

The provincial government appointed a Commission consisting of eight members:

- Ray Clayton, Chairman, former Deputy Minister of Urban Affairs and Deputy Minister of Education;
- Don Rowlatt, Vice-Chairman, Associate Deputy Minister of Finance;
- Nick Volk, Past-president of the Saskatchewan School Trustees Association, representing S.S.T.A.;
- Lol O'Shaughnessy, business person, member-at-large;
- Herve Langlois, Deputy Director of Education, Saskatoon Public School Division, member-at-large;
- Bob Linner, Prince Albert City Commissioner, member-at-large;
- Ted Brady, Past-president of the Saskatchewan Urban Municipalities Association and Past-president of the Federation of Canadian Municipalities, representing S.U.M.A.; and
- Ike Thiessen, President of the Saskatchewan Association of Rural Municipalities, representing S.A.R.M..

Mr. John Wright, Executive Director, Taxation and Economic Policy, Department of Finance, replaced Don Rowlatt as of June 12, 1985. Mr. Thiessen and Mr. Brady did not participate in the work of the Commission after November, 1985 and January, 1986, respectively. Mr. Thiessen officially resigned from the Commission as of July 7, 1986.

The Commission submits its reports to a Cabinet Committee comprised of the Minister of Finance (Chairman), the Minister of Education, the Minister of Rural Development, and the Minister of Urban Affairs. The Cabinet Committee encouraged the Commission to report its findings in the form of interim reports, where possible, to enable the provincial government to consider taking action on certain items at an earlier date than would be possible if all findings were dealt with in a single report. Accordingly, interim reports were issued in January, 1985 and September, 1985.

The Commission utilized a consultative approach in its deliberations, beginning with a major conference in the Fall of 1984, followed by regional meetings in 11 communities.A total of 126 briefs were presented to the Commission at the regional meetings. Forty-six briefs or letters were submitted by mail, including a number indicating support for their organization's brief. Discussion papers were prepared and meetings were subsequently held with various departments and agencies of the provincial government, administrative local government personnel, S.U.M.A., S.A.R.M., S.S.T.A., the Saskatchewan Health-Care Association, and the Saskatchewan Library Trustees Association. Topics discussed included property assessments and governance of the assessment function, alternative local revenue sources and utilization of the property tax base. The Commission also met with representatives of the Saskatchewan Chamber of Commerce and the Canadian Federation of Independent Business, and responded to a request to meet with representatives of the City of Saskatoon.

The Commission met a total of 83 days, including the Fall conference, and regional meetings. During the 2 year term of the Commission, the staff prepared and analyzed a tremendous volume of material, research and statistics. The Commission members want to extend their sincere appreciation and thanks to the following staff for their excellent work:

- Donald Koop, Director of Research;
- Marie Cummings, Secretary;
- Brian Hamill (August, 1984 to July, 1986);
- Bryan Hebb (June, 1985 to July, 1986);
- Arleen Hynd (June, 1984, to April, 1985);
- Michael Dumelie (July, 1984 to December, 1984).

The Commission would like to thank officials of the Saskatchewan Assessment Authority, the Departments of Education, Health, Finance, Rural Development, Urban Affairs, and the Saskatchewan Library, and Statistics Canada, for their co-operation in providing statistical and other information when it was needed.

Along with the main volume of the **Final Report,** the Commission has prepared a second publication, **Final Report of the Local Government Finance Commission - An Overview** which provides a brief treatment and overview of the subject matter of this main report.

INTRODUCTION

This is the **Final Report of The Local Government Finance Commission.** Preceding this **Final Report** were three interim reports:

- **Interim Report of the Local Government Finance Commission — (January, 1985)**

  In this report, the Commission explained its consultation processes and outlined the issues and concerns which had been expressed to the Commission.The Commission also examined and commented upon the concepts of autonomy and accountability and described the importance of local governments. The Commission outlined why it believed in strong local government and why a local source of revenue for local governments was important. An income-based property tax credit was proposed as a means of dealing with the insensitivity of the property tax to changes in income, and to address more effectively than the property tax rebates of the day, the regressivity of the property tax for those with low incomes.

- **Alternative Local Sources of Revenue and Utilization of the Property Tax Base (September, 1985)**

  In this report, the Commission examined alternative local sources of revenue, and examined an extensive number of considerations that were of relevance to the question of which local governments should have access to the local property tax base and the extent to which the property tax should be utilized. The Commission concluded that the property tax was the only local tax source of sufficient magnitude to meet the needs of local governments and that both municipalities and school divisions should continue to have access to the property tax base. The issue of access by hospital and library boards to the property tax was not dealt with in this report.

- **Property Assessment in Saskatchewan (September, 1985)**

  In this report, the Commission examined the system of property assessments in Saskatchewan. The Commission concluded that the systems used for assessing property were fundamentally sound, but that several serious problems existed, including the lack of resources to do adequate research, reassessments which were too infrequent, a lack of thoroughness in the inspection of properties, and a lack of proper policy direction. The Commission recommended an independent assessment management agency to be responsible for the governance and financing of the assessment function. Under the Commission's proposal, local governments would have the major voice in governing the function.

The interim reports were not submitted with the view that the conclusions contained in them were tentative and subject to change in the **Final Report.** Instead, the Commission considered the interim reports as having dealt in a conclusive way with the particular matters addressed within each of them. The Commission issued the interim reports with a view to providing the provincial government with an opportunity to consider taking action on particular matters at a more opportune time, rather than having to wait until the final report is issued. In this regard, the Commission notes that legislation to establish the Saskatchewan Assessment Management Agency was passed in June, 1986, far sooner than could have been the case had the Commission not issued the interim report dealing with the matter in September, 1985.

While occasional reference is made in this **Final Report** to the earlier reports, in the most part, this report does not duplicate the material contained in them. The interim reports are, therefore, integral components of the overall report of the Commission.

The report is divided into 10 major parts.

In **Part I** of this report, the Commission presents an overview of its views on local government, provides an overview of the financing of local governments and deals with the question of the overall reliance on the property tax. The material in the first chapter of this Part draws substantially on materials presented in the interim reports referred to above. Although this entails some duplication from the earlier reports, the Commission believed that it was important that the reader be provided with an overview of the essential views of the Commission on the nature and role of local governments. An overview of the financing of local government and the Commission's views on the overall reliance on the property tax are also set out in this Part.

In **Part II,** the Commission examines a number of issues relating to the local tax base. Exemptions, grants-in-lieu of taxes, commercial/industrial tax sharing and the business tax are given particular attention.

In **Part III,** the Commission evaluates the revenue sharing concept and examines in detail the systems under which provincial funds are distributed among municipalities and school divisions. The equalization concept is an important feature that is dealt with in detail.

In **Part IV,** the Commission deals with the capital needs of municipalities and school divisions and the alternative means by which those needs can be met.

In **Parts V and VI,** the Commission examines a number of issues relating to the governance and funding (both operating and capital) of hospital boards and libraries, respectively.

In **Part VII,** the Commission provides an overview of the financial implications and interrelationship of its recommendations, and presents a reform package of recommendations. The recommendations dealt with in this Part are not the total of the Commission's recommendations but, rather, are those that have implications for the fiscal relationships between the provincial and local levels of governments.

In **Part VIII,** the Commission provides an analysis of options regarding the degree of reliance on the property tax, alternative provincial sources of revenue, and the corresponding question of the level of provincial funding of local governments.

In **Part IX,** the Commission sets out its views on a number of other important matters relating to local government which do not fall within the other headings of the report.

Part X, is a summary of the main recommendations and conclusions.

Numerous appendices providing supplementary statistical and other background material are included at the back of the report.

PART I

OVERVIEW OF LOCAL GOVERNMENT

Part I presents an overview of local government in Saskatchewan. Chapter One outlines the nature and purpose of local governments. Chapter Two provides an overview of the financing of municipalities, school divisions, hospital boards, and library boards. Chapter Three, examines the issue of local government reliance on the property tax.

CHAPTER ONE

THE NATURE AND PURPOSE OF LOCAL GOVERNMENT

In this **Final Report,** the Commission analyzes a number of complex issues pertaining to the financing of local governments. An important thread which runs throughout the various parts and chapters is the firm belief of Commission members in the value and fundamental importance of local government. The Commission believes that its views on the nature, purpose and value of local governments, as well as its views on what contributes to a set of strong and effective local governments, should be provided as background from which the reader may examine the overall report.

1. WHAT IS LOCAL GOVERNMENT?

There are three levels of government in Canada: the federal government, the provincial governments, and local governments. The federal and provincial government structures are set out in the Constitution of Canada.

It would be possible, from a technical standpoint, to have all government functions handled by the provincial and federal governments. However, provincial governments have established various types of local governments to permit certain public decision-making and administration to be carried out at the local level.

Local governments in Canada are creatures of the respective provincial governments and, in general, have no constitutional status.[1] Each provincial government decides what types of local governments to establish, the services they are to provide, their duties, the extent of their independence from the provincial government, and how they are to be financed.

Some have suggested that there is only one true form of local government, that being municipalities, and have tied their views on issues such as access to a local tax base to this concept. They suggest that school divisions, library boards and hospital boards are simply vehicles for the local administration of certain functions for which the provincial government has primary responsibility, and that these local entities should not be considered to be local governments.

In providing the Local Government Finance Commission with the terms of reference, the provincial government directed the Commission to deal with the local funding of libraries, hospital boards, school divisions and municipalities. It would be reasonable to assume, therefore, that the provincial government considers all four to be local governments.

Some people have suggested that the diversity and complexity of the functions performed, the importance of the functions performed, the nature and extent of electoral accountability, their powers to tax, and control over the local tax base are suitable criteria for deciding what is or what is not local government. A discussion of these suggested criteria is set out below:

- Diversity and Complexity of Functions

  It has been argued that local governments deal with a diverse set of complex functions, while other local institutions which deal with only one functional area are essentially administrative bodies.

  On the one end of the scale, the larger cities clearly have a diverse set of complex functions to perform but, on the other end of the scale, a small village may provide only a few relatively simple services. School divisions and hospital boards deal with only one functional area, but the complexities of the respective areas are substantial. Although not as complex as the functions of a school division or a larger municipality, certain library boards[2] deal with areas which, in the opinion of some people, are of greater complexity than smaller municipalities.

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[1] In a recent decision on a case between the Province of Quebec and the Greater Hull School Board, the Supreme Court of Canada ruled that the Constitution guaranteed the rights of separate schools to levy property taxes. See p. 21 of **Alternative Local Sources of Revenue and Utilization of the Property Tax,** a September, 1985 interim report of the Commission.

[2] Throughout this report, the term "library board" applies to regional library boards and boards governing municipal library boards. Unless otherwise indicated, the term "library board" does not apply to the local boards that oversee branch libraries within the regional library system.

- Importance of Functions

  It has been argued that to be classified as local government, local institutions must be in a position to have a substantial impact on the lives of people within their areas.

  It would be difficult to make evaluations on the basis of this criterion because the services provided by all four types of local institutions are important. No doubt, legitimate debate could take place over the question of the relative importance of local institutions, but the Commission felt the criterion was of little assistance.

- Electoral Accountability

  It has been argued that in order to be classified as local government, those responsible for determining the policy of an institution must be democratically elected and held accountable to the electorate for their decisions.

  Under this criterion, municipalities and school divisions would clearly qualify because one must be elected to be a member of a municipal council or a board of education. Library boards and hospital boards, on the other hand, are appointed rather than elected. Library boards and some hospital boards do have an indirect accountability to the electorate through the municipalities that appoint them.

- Local Taxation

  It has been argued that to be classified as local government, an institution must have access to a local tax base and that the institution must have the authority to determine the rate of taxation pertaining to its function.

  All municipalities, school divisions and union hospital districts have this authority and would qualify as local governments under this criterion. Regional library boards have a form of access to the local tax base by virtue of their authority to requisition monies from member municipalities, but they do not set tax rates per se.

- Control of Tax Base

  It has been argued that only those institutions which have control over their own tax base can be classified as local governments.

  Municipalities are the only local entities out of the four types dealt with by the Commission that satisfy this criterion, at least in part. It could be argued that it has been the provincial government which controls the local tax base because it determines what is to be assessed, what is to be taxed, the criteria for the assessment, and how it is to be assessed.[3] Municipalities have the responsibility for maintaining the assessment and tax rolls and for collecting taxes. None of the other types of local government have authority or responsibility for administering the local tax base.

- Policy v.s. Administration

  It might be argued that only those institutions which have the authority to make basic policy decisions should be considered to be local governments, while others which simply administer policy established by the provincial government should not be considered to be local governments.

  All municipalities, school divisions, hospital boards, and library boards have a combination of policy-making and administrative responsibilities. There are variations in the complexity and importance of the policy decisions, but all four types of entities make policy decisions.

The main observations of the Commission in regard to the foregoing are:

- There are obviously different types of local government. They have varying degrees of independence, varying breadth and complexity of functions, varying responsibilities in regard to taxation, and different types of accountability. However, all types of local government are important.
- The feature common to municipalities, school divisions, hospital boards and library boards is that they allow local decisions to be made in accordance with local desires and priorities. The alternative is to have decision-making in the hands of provincial authorities.
- It is desirable to promote and maintain a maximum level of local decision-making. The focus of attention should be on ensuring that the appropriate financial and other structures are in place to achieve this objective.
- To engage in speculation on which form of local government is most important or whether one or more of these institutions is a form of local government is unproductive.

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[3] In **Property Assessment in Saskatchewan,** September, 1985 interim report, the Commission recommended a new management structure for the assessment function which would be controlled by local governments. The provincial government recently passed legislation to establish The Saskatchewan Assessment Management Agency, to be controlled by local governments and which would have a major role to play in assessment policy and the valuation of properties.

The Commission has been given the mandate to deal with the funding of municipalities, school divisions, hospital boards and library boards. These forms of local governance are well-established and broadly accepted and, in the view of the Commission, they should continue as vehicles for the delivery of services at the local level. The Commission interpreted its mandate as dealing with the means of improving the funding of these forms of local governance.

2. IMPORTANCE OF LOCAL GOVERNMENT

There are a number of reasons why it is important to have local governments:

- Variations in Desires and Needs

  Each community is different from the other. People in each community have differing views on the types or levels of services they desire, the relative priority that should be attached to different types of services and the levels of taxation they are prepared to bear to finance those services. Through local governments, society is able to respond to those variations in needs and desires and to produce a greater degree of satisfaction than would be the case if decision-making for all services were centralized at the provincial level.

- Variations in Local Circumstances

  Quite apart from variations in local priorities, there are often variations in local circumstances which affect the optimum way in which services can be delivered.Local authorities are in an advantageous position to identify the most effective way in which to implement policies and establish and maintain programs.

- Effective Expenditures

  The Commission believes that public monies are spent most effectively when those who are responsible for making spending decisions are close to the taxpayers.

- Accountability

  Residents tend to have more immediate and direct access to their local government representatives than to their provincial representatives. Officials of local governments either are or can be closer to the people they serve and through the electoral and other processes are accountable to those that they serve.

- Local Initiative

  Local governments provide for a greater opportunity for administrators and policy-makers to exercise initiative and take advantage of their own creativity. By having latitude to be different, local authorities can better serve local needs.

In short, local governments are necessary to give recognition to the variations in needs and desires in the types and levels of services which occur from community to community and to ensure the effective delivery of those services.

3. TYPES OF LOCALLY DELIVERED SERVICES

Provincial legislation provides for the delivery of some services at the local level, either because they are thought to be more efficiently administered locally, or because it is considered appropriate for decisions on the level of services to be made locally, or both.

The types of services which are delivered at the local level can be divided into three categories:

i) **Services which are purely local in nature.**

These are services for which the local authorities decide:

— whether or not the service is provided;

— the level or extent of the service;

— the standards of the service; and

— how the service is delivered.

There are few, if any, provincial regulations governing such services. The provincial government has no overriding interest in these types of services. It is deemed appropriate to have all decisions pertaining to those services made at the local level and for the administration to be done at the local level.

A number of services provided by municipalities fall in this category. Recreation, fire protection, paving urban streets and roads, and the provision of local access roads in rural municipalities are examples.

Examples of services provided by school divisions that fall into this category are school band programs, school social workers, and certain co-curricular programs (such as work/study programs).

Library services essentially fall into this category, although provincial grants which encourage the provision of library services reflect a certain provincial interest.

ii) **Services for which the provincial government has an interest in enforcing certain minimum standards, but for which other decisions are deemed to be appropriate to be made at the local level.**

Most services provided by school divisions fall into this category. Province-wide standards exist in regard to such matters as the minimum curriculum offerings which must be provided, minimum teacher training requirements and the length of the school year. These standards are set out in statutes and regulations. Local decisions determine such matters as the number of programs and services to be provided above the required minimum, numbers of staff employed and class sizes, the levels of training and experience of teachers they hire, and the level of other resources applied to the delivery of the programs.

Numerous services provided by municipalities fall into this category. Waste disposal (garbage and sewage) are municipal responsibilities, but the provincial government has regulatory standards that must be met to protect the environment and the residents of other municipalities. Community planning is a municipal responsibility, but certain provincial standards and principles must be observed, including the provision of public reserve areas. The provision of urban water supplies is a municipal responsibility, but there are provincial regulations governing the quality of water. Roads are a municipal responsibility, but the provincial government specifies certain standards so that an integrated intermunicipal road network is provided.

Some hospital services that exceed the type and level supported by the Saskatchewan Hospital Services Plan and which are locally financed, fall into this category. For example, a hospital board may decide to provide a cardiac care unit that is not supported by S.H.S.P. for that particular hospital.

iii) **Services for which the provincial government sets the standards and level of services, but for which administration is thought to be more effectively done at the local level.**

For services in this category, there may or may not be much local flexibility for setting priorities within the determined level of expenditure. The key characteristic is that the expenditure level is essentially determined by the provincial government, not by the local authorities.

Delivery of this category of service is delegated to local authorities because it is thought to be administered more effectively at that level, either because of the advantage of smaller scale operations, the need for local circumstances to be taken into account, or other factors which may make it less suitable or efficient to have administration carried out by provincial authorities.

Most hospital services fall into this category. It is not practical for all types of hospital services to be provided in all hospitals. In accordance with the need for province-wide rationalization of services and facilities, S.H.S.P. defines the type and level of services which it approves for each hospital and funding is provided accordingly.

The degree of independence the local governments are allowed to have from the provincial government, the amount of provincial funding they receive and the degree of conditionality or unconditionality of that funding, the nature of their accountability to the public and how they are governed, are largely determined by the nature of the services which the local governments are expected to deliver, and the degree of provincial interest in those services.

4. EFFECTIVE LOCAL GOVERNMENT

The mere existence of local governments does not mean that they will perform effectively. Of the several factors that influence the effectiveness of local governments, two of the major ones are:

- Independence/Autonomy

  If local governments are to be in a position to respond to the unique needs, desires and priorities of the publics they serve, they must be in a position to make decisions. The degree of independence to make decisions depends largely on three factors:

  — Legislative Authority

  The provincial legislation under which local governments operate must provide local governments with the mandate or legal authority to make decisions. Legislation can serve to greatly restrict local decision-making, thereby frustrating the very purpose for which local governments are created, or it may provide them with a set of responsibilities and corresponding powers that enhance their ability to fulfil their mandate.

  — Conditionality of Provincial Government Funding

  The provincial government provides funding to all types of local governments. Provincial funding can be highly conditional, thereby serving to impose provincial priorities onto local governments, or the funding can be unconditional, thereby freeing local governments to set their own priorities.

— Local Source of Revenue

Some degree of independence could be exercised by local governments totally dependent on the provincial government for their funding according to the degree of unconditionality of such funding. However, access to a local source of revenue is essential for certain critical elements of the independence of local governments. Without a local source of revenue, local governments would be unable to respond to the variations in desires for different levels of services. Levels of services would be totally dependent on the amount of provincial funding available. Planning would tend to amount to a process of endeavouring to anticipate future levels of provincial funding. Local governments would be unable to provide services that were not financially supported by the provincial government.

A local source of revenue, on the other hand, enables local governments to make decisions on a wider range of priorities and enables them to make local decisions on the levels of services which are to be provided.

- Accountability

  If local governments are to be responsive to local needs and desires, there must be mechanisms by which those who are responsible for making decisions are held accountable to those they serve.

If local governments are to be effective in fulfilling their role, they must have the independence or autonomy to make the decisions they were created to make, and they must be accountable to those they serve.

5. PROVINCIAL/LOCAL RESPONSIBILITIES

Before an adequate analysis can be done on the financing of local governments, the question must first be asked whether there is an appropriate division of responsibilities between local and provincial governments. If it were desirable for the responsibility for certain services now delivered by the provincial government to be transferred to local governments, this would increase the funding requirements of the local government sector. If, on the other hand, the public interest would be served by assigning to the provincial government the responsibility for certain services now governed at the local level, the funding requirements of the local government sector would be reduced.

The Commission identified some services which it believed should be transferred between the provincial and local governments, but none of these was of major proportions. Accordingly, the Commission has assumed that there will be no major changes in financial requirements for the local government sector arising from shifts in responsibilities.

6. SUMMARY

Local governments provide a means by which people can set local priorities and make local decisions in accordance with the particular desires of local population served. Having local governance of certain public services provides a more effective means for the overall needs and desires of the population to be met than could be the case if the governance were vested entirely with the provincial government.

There are different types of local government, each with differing degrees of financial and policy-making independence from the provincial government. There are variations in the breadth, complexity, and cost of services provided by the different local governments, and they have varying mechanisms for being held accountable to the public they serve.

In general, the current provincial/local government distribution of responsibilities for the provision of services is appropriate, and local governments are providing a desirable level of services.

The Commission firmly believes in the value of local government. The Commission has undertaken its examination of policy options with a view to strengthening local government, while at the same time maximizing the fairness of the taxation system.

CHAPTER TWO

FINANCIAL OVERVIEW

In order to provide a context for the consideration of the numerous local government finance issues, an overview of the financing of municipalities, school divisions, hospital boards and library boards is set out below.[1]

1. URBAN MUNICIPALITIES

In 1984, the 502 villages, towns and cities in Saskatchewan spent $405.5 million in operating expenditures, and had operating revenues of $414.0 million.[2] Property taxes[3] and related grants-in-lieu of taxes constituted 43.2% of total revenues, other local taxes, and S.P.C. payments constituted 10.6%, while government grants constituted approximately 17.5%.[4]

Fiscal services (mainly debt retirement and capital expenditures from current revenues) have been the largest category of expenditure over the past 14 years, ranging from an average of about 31% in the 1970's to just over 25% in 1983 and 1984.[5]

Protective services (mainly fire and police protection) is the second largest category of expenditures and has risen slightly from 22% in the 1970's, to about 24% over the last 3 years. Transportation services and general government expenditures have remained a relatively constant percentage of total expenditures over the 1971 to 1984 period, averaging about 14% and 11%, respectively. Recreation and cultural services have increased from 9.1% of total expenditures in 1971 to over 13% in 1983 and 1984.

Property taxes and related grants-in-lieu of taxes have dropped from a high of 54.8% of total revenues in 1971 to a low of 39.0% in 1979, and have climbed back to 43.2% in 1984.Government grants have ranged from a low of 5.7% of revenues in 1973 to a high of 22.5% in 1979, and have fallen to 17.5% in 1984. Other local taxes and S.P.C. payments have averaged about 10%.

2. RURAL MUNICIPALITIES

In 1984, the 299 rural municipalities spent $138.1 million and had revenues of $147.1 million.[6] Property taxes and related grants-in-lieu of taxes constituted approximately 61.6% of total revenues, while provincial grants constituted 29.5%.[7]

Over the past 14 years, transportation services have accounted for the bulk of rural municipal expenditures, ranging from a high of 74.4% in 1971 to a low of 63.6% in 1984.[8] General government, which is mainly administrative expense, has remained relatively constant at about 11% of expenditures over the same time period. Fiscal services, which are mainly short-term debt charges, transfers to allowances and reserves, and capital expenditure from current revenue has ranged from a low of 12.3% in 1971 to a high of 18.2% in 1984.

Over the 1971 to 1984 period, property taxes and grants-in-lieu of taxes have averaged about 60% of revenues, ranging from a high of 64.2% in 1977 to a low of 55.6% in 1975. Grants, all but a small portion of which are from the provincial government, have averaged approximately 31% of total revenues, ranging from a high of 35.4% in 1975 to a low of 28.2% in 1977.

3. SCHOOL DIVISIONS

In 1984, the 112 school divisions in Saskatchewan had $672.2 million in operating expenditures and had revenues of $676.6 million.[9] Taxes and grants-in-lieu of taxes constituted 47.6% of total revenues, while provincial grants constituted 48.5%.[10]

The costs of instruction (mainly teachers' salaries and instructional materials) have accounted for an average of about 68.5% of total expenditures, plant operation (mainly caretaking, maintenance, heat and light) about 11.3%, pupil transportation about 8.5%, capital debt retirement about 7.4%, and administration about 2.4%.[11] These percentages have varied very little over the past 15 years.

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[1] Throughout this report, the Commission has endeavoured to utilize the latest available data. For most local governments, 1984 is the latest year for which data on revenues and expenditures are available. Most of the appendices referred to in this chapter provide a historical series between 1971 and 1984, inclusive.

[2] See Appendices I-1 and I-2.

[3] The term "property taxes" is used throughout this report to include taxes on real property assessment and business assessment, unless otherwise indicated.

[4] See Appendix I-4.

[5] See Appendix I-3.

[6] See Appendices I-5 and I-6.

[7] See Appendix I-8.

[8] See Appendix I-7.

[9] See Appendices I-9 and I-10.

[10] See Appendix I-12.

[11] See Appendix I-11.

Property taxes and grants-in-lieu of taxes accounted for 49.4% of operating revenues in 1971. This declined in subsequent years to a low of 39.8% in 1976, rose since then to 47.6% in 1984, and declined in 1985 to 46.9%.

Operating grants from the provincial government amounted to 46.8% of operating revenues in 1971, and by 1976 this had risen to 56.7%. In years subsequent to 1976, the percentage declined to 48.5% in 1984, and rose to 49.7% in 1985. Sources of revenue other than provincial grants and property taxation have amounted to less than 4% of total revenues over the 15 year period.

4. HOSPITAL BOARDS

In fiscal year 1984-85, 129 Saskatchewan hospital boards[12] spent a total of $487.3 million in operating expenditures and had operating revenues of $479.7 million. Wages and salaries constituted 68.5% of expenditures, drugs and medical and surgical supplies constituted 7%, and other expenditures 24.5%. These proportions varied relatively little over the 14 year period, 1971 to 1984.[13]

Government transfers in 1984 accounted for 92.6% of the revenue of hospital boards, property taxes and grants-in-lieu of taxes accounted for 2.4%, and other sources of revenue accounted for about 5.0%.[14] Local levies have declined slightly as percentage of total expenditures over the period 1978 to 1984.[15]

5. LIBRARY BOARDS

In 1984, the 7 regional and 3 municipal library boards in Saskatchewan spent a total of $18.6 million in operating expenditures and had operating revenues of $18.9 million.[16] In addition, there were local branch operating expenditures of $2.0 million.

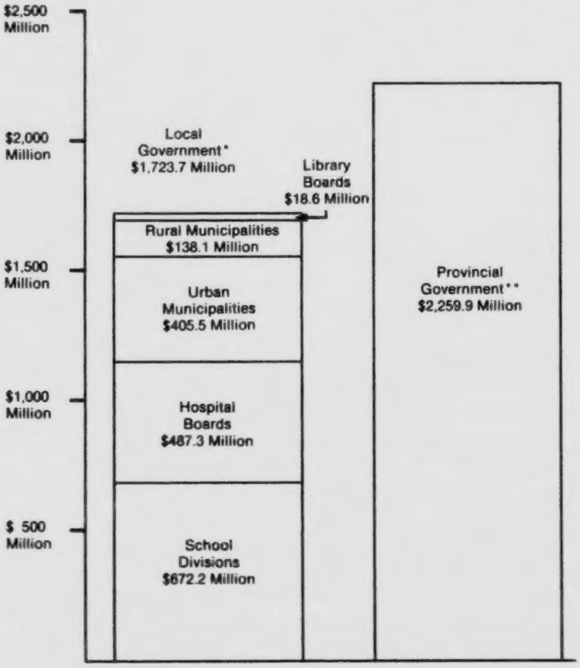
Local levies constituted 36.7% of operating revenues for regional libraries and 89.0% for municipal libraries for an overall average of 68.8%. Provincial grants amounted to 60.6% of the operating revenues of regional libraries and 8.6% of the operating revenues of municipal libraries. Revenues from sources other than local levies and provincial grants amounted to about 2.6% of revenues for both municipal and regional libraries.[17]

Wages and salaries account for approximately 60% of regional and municipal library expenditures. Materials (including book purchases) account for about 15% of total expenditures.

6. OVERALL OPERATING REVENUES AND EXPENDITURES

Together, municipalities, school divisions, library boards, and hospital boards spent a total of $1,723.7 million in 1984. By comparison, the total expenditure of the provincial government in 1984-85, excluding its transfer payments to the above-noted local governments, amounted to $2,259.9 million. In other words, for every $100 of provincial expenditures, local governments spent 76 dollars. Chart I-1 provides a visual comparison of these expenditures.

CHART I-1
COMPARISON OF PROVINCIAL GOVERNMENT AND LOCAL GOVERNMENT EXPENDITURES
1984



NOTES:

*Expenditures of urban municipalities, rural municipalities, school divisions, and library boards are for the calendar year 1984, while the 1984-85 fiscal year is used for hospital boards.

**Provincial expenditures include all expenditures of the Government of Saskatchewan, less transfers to the local governments, for the 1984-85 fiscal year.

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[12] Includes all acute-care hospitals, except in a few cases where 1 hospital board governs 2 or more hospitals. The figure excludes the 9 union hospital districts which do not own and operate a hospital.

[13] See Appendix I-13.

[14] See Table I-1.

[15] See Appendix I-14.

[16] See Appendices I-15 and I-16.

[17] See Appendices I-17 and I-18.

These same local governments received a total of $1,736.2 million in operating revenues in 1984. Property taxes and grants-in-lieu of taxes constituted $630.5 million or 36.3% of all revenues, while provincial transfers amounted to $893.9 million or 51.5% of revenues.

Table I-1 and Charts I-2 and I-3 summarize the major sources of revenue for each of the types of local government.

Public library boards and rural municipalities have the greatest reliance on property taxes relative to other forms of revenue. School divisions and hospital boards are the most heavily reliant on provincial transfers for their revenues.

Urban municipalities are the only type of local government which have a substantial amount of revenue from sources other than either property taxes or government transfers.

Table I-2 provides information on the relative share of major revenue sources among the various types of local government.

CHART I-2
SOURCES OF REVENUE FOR LOCAL GOVERNMENTS COLLECTIVELY, 1984

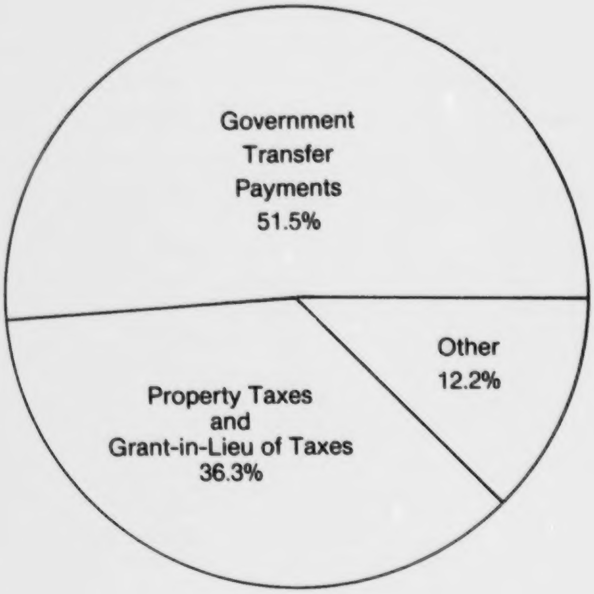

TABLE I-1

SOURCES OF REVENUE FOR LOCAL GOVERNMENTS, 1984

Type of Local Government	Source of Revenue							
	Property Taxes and Grants-in-Lieu of Taxes		Government Transfer Payments		Other		Total	
	$	% of Total	$	% of Total	$	% of Total	$	% of Total
Urban Municipalities	$193,164,053	46.6%	$ 72,635,795	17.6%	$148,208,208	35.8%	$ 414,008,056	100.0%
Rural Municipalities	90,932,475	61.8	43,354,281	29.5	12,799,400	8.7	147,086,156	100.0
School Divisions	321,733,084	47.6	328,399,517	48.5	26,423,102	3.9	676,555,703	100.0
Hospital Boards	11,646,186	2.4	444,106,598	92.6	23,945,668	5.0	479,698,452	100.0
Public Library Boards	12,988,821	68.9	5,370,089	28.5	500,828	2.6	18,859,738	100.0
All Local Governments	$630,464,619	36.3%	$893,866,280	51.5%	$211,877,206	12.2%	$1,736,208,105	100.0%

CHART I-3

SOURCES OF REVENUE BY TYPE OF LOCAL GOVERNMENTS, 1984

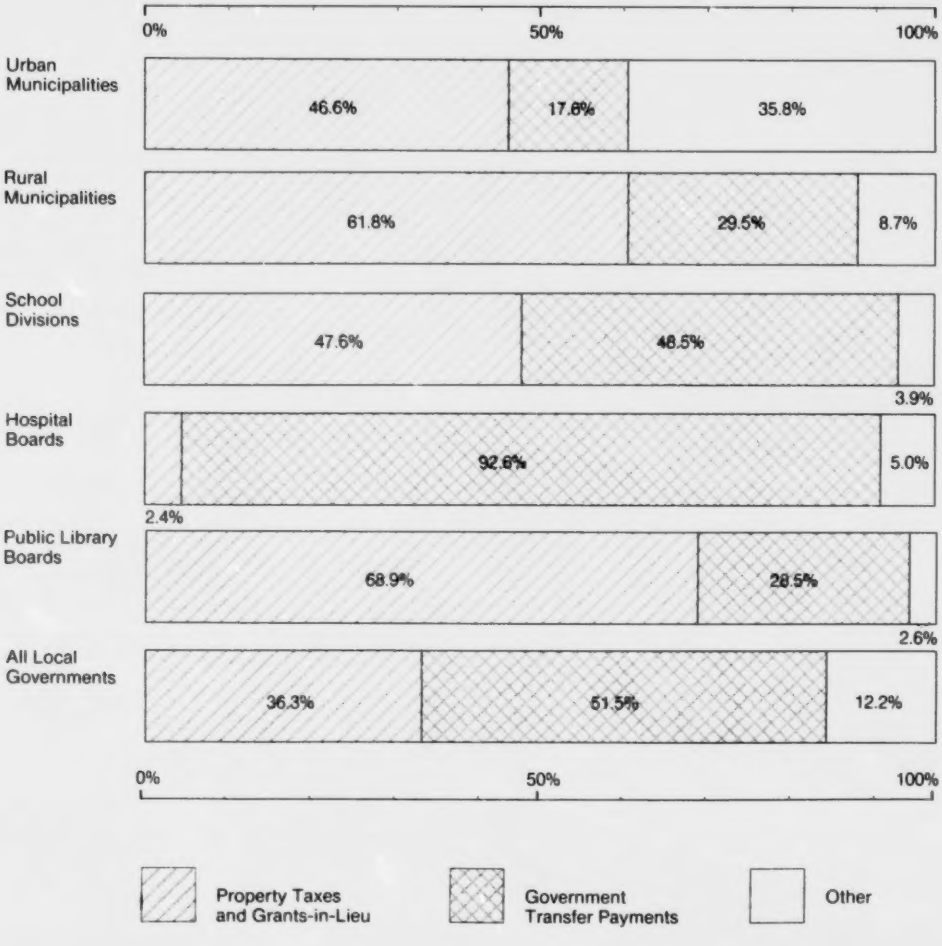

TABLE I-2
RELATIVE SHARE OF MAJOR REVENUE SOURCES BY LOCAL GOVERNMENTS
1984

Type of Local Government	Type of Revenue			
	Property Taxes and Grants-In-Lieu of Property Taxes	Government Transfer Payments	Other Revenues	All Revenue
Urban Municipalities	30.6%	8.1%	70.0%	23.8%
Rural Municipalities	14.4	4.9	6.0	8.5
School Divisions	51.0	36.7	12.5	39.0
Hospital Boards	1.9	49.7	11.3	27.6
Library Boards	2.1	0.6	0.2	1.1
All Local Governments	100.0%	100.0%	100.0%	100.0%

School divisions account for 51.0% of all property taxes and grants-in-lieu of property taxes, urban municipalities 30.6%, rural municipalities 14.4%, and hospital boards and library boards about 2% each.

Hospital boards receive 49.7% of all government transfers to local governments, and school divisions receive 36.7%.

Urban municipalities receive 70.0% of all revenues from sources other than property taxes, grants-in-lieu of property taxes, and government transfers.

7. CAPITAL EXPENDITURES AND REVENUES

Capital expenditures in 1984 amounted to $148.9 million for urban municipalities, $18.0 million for rural municipalities, $69.8 million for school divisions, and an estimated $36.6 million for hospital boards. Capital expenditures on libraries are a municipal responsibility and are reflected in urban municipal expenditures.

Table I-3 and Chart I-4 set out the sources of financing for these capital expenditures.[18]

The sources of revenues for the financing of the capital expenditures varied considerably among local governments. For urban municipalities, 28.1% of capital revenues come from government grants, 14.5% come from capital borrowing, 21.0% come from current revenue and 36.3% come from other sources, including reserve funds and current revenue contributions.

Capital expenditures by rural municipalities were financed primarily by long-term capital debt (30.6%) and current revenue contributions (48.3%). Capital grants (18.8%) and long-term capital debt (56.9%) were the main sources of financing for school divisions.

The sources of financing for hospital projects were not available on an aggregate basis.

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[18] The issue of capital funding is dealt with in greater depth in Part IV.

TABLE I-3

SOURCES OF FINANCING FOR CAPITAL EXPENDITURES OF LOCAL GOVERNMENTS
1984
($ Millions)

Type of Local Government	Expenditure $	Source of Financing: Capital Grants $	Capital Grants % of Total	Long-Term Capital Debt $	Long-Term Capital Debt % of Total	Current Revenue Contributions $	Current Revenue Contributions % of Total	Other $	Other % of Total
Urban Municipalities[1]	$148.9	$41.9	28.1%	$21.6	14.5%	$31.2	21.0%	$54.1	36.3%
Rural Municipalities[1]	18.0	0.4	2.2	5.5	30.6	8.7	48.3	3.4	18.9
School Divisions[2]	69.8	13.1	18.8	39.7	56.9	9.9	14.2	7.1	10.2
Hospital Boards[3]	est. 36.6	23.8	65.0	N/A	N/A	N/A	N/A	N/A	N/A

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[1] In the case of urban and rural municipalities, the current revenue contribution represents the amount of money transferred from the operating fund for capital expenditures. Other sources of capital financing were obtained from the statement of capital financing. Data for northern municipalities are excluded.

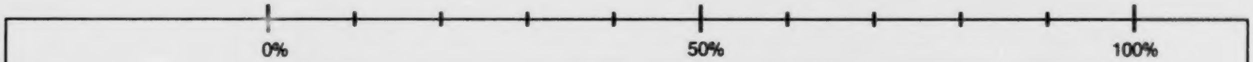
[2] In the case of school divisions, the data excludes northern school divisions. The sources of financing were estimated by taking the proportion that capital grants, debenture, current revenue, and other sources represented of the total financing (excluding previous year's balance), for capital projects approved by the Department of Education for 1983 and 1984.

[3] A breakdown of sources of financing for hospital board capital expenditures was not available.

NOTE: The purpose of this table is to show the sources of revenue raised in 1984 to finance 1984 capital expenditures. It excludes funds available from previous years or excess revenues raised in 1984 which would be available to finance subsequent years capital expenditures.

CHART I-4

SOURCES OF FINANCING — CAPITAL EXPENDITURES



CHAPTER THREE

RELIANCE ON THE PROPERTY TAX

An important context within which to analyze the many complex issues dealt with in this report is the level of the property tax. As noted in the previous chapter, the four types of local government whose financing are being reviewed by the Commission rely on the property tax to varying degrees. The question is whether there is either too much reliance on the property tax, or whether there is potential for the property tax to be used to a greater extent. This chapter endeavours to examine this question from the standpoint of the different types of local government, as well as from an overall basis.

1. OVERVIEW

In its **January, 1985 Interim Report**, the Commission noted that property taxes had fallen as a percentage of Saskatchewan Gross Domestic Provincial Product (G.D.P.P.). Based on more recent data, the Commission makes the following observations in regard to the 1968 to 1985 period:

- The high point occurred in 1970 when property taxes amounted to 5.1% of G.D.P.P..
- The low point occurred in 1980 when property taxes had fallen to 2.7% of G.D.P.P..
- Subsequent to the low point in 1980, property taxes have risen to 3.5% of G.D.P.P. in 1985.

For the 1968 to 1985 period, the reliance on the property tax was higher in Saskatchewan compared to Canada as a whole for 1968 to 1973 inclusive, and in 1982 and subsequent years.Between 1974 to 1981 inclusive, the relative reliance was lower in Saskatchewan than in Canada as a whole. (See Chart I-5.)[1] Changes in the reliance on the property tax can be as a result of changes in the level of property taxation, or changes in the provincial economic performance, or both.

Total property taxes and grants-in-lieu of property taxes are estimated to reach $634 million in 1985. As noted earlier, (Table I-2), schools account for about 51% of total property taxes levied, municipalities about 45%, and hospitals and libraries about 2% each.

2. URBAN MUNICIPAL PERSPECTIVE

Net urban municipal tax levies and related grants-in-lieu of taxes have increased from $43.6 million in 1971 to $178.7 million in 1984, a compound average annual percentage increase of 11.5%. Another way of measuring the rate of increase in property taxation is to compare its rate of increase with the general rate of inflation (the rate at which the general cost of goods and services rises). In this regard, the Commission notes that property taxation in urban municipalities has risen at a compound annual rate of 2.9% in excess of the rate of inflation.[2]

The relative importance of urban property taxes and grants-in-lieu of taxes has declined considerably since 1971, due largely to increases in provincial transfer payments. In 1971, property taxes and related grants-in-lieu of taxes accounted for 54.8% of total operating revenues, compared to 43.2% in 1984.[3]

3. RURAL MUNICIPAL PERSPECTIVE

Over the 1971 to 1984 period, rural municipal property tax levies and related grants-in-lieu of taxes increased from $26.8 million to $90.6 million, a compound average annual percentage increase of 9.8%. Rural municipal property tax levies increased at a compound average annual percentage rate of 1.3% over and above the general rate of inflation.[4]

Rural municipalities have placed slightly more reliance on property taxes today than they did in 1971. Property taxes and grants-in-lieu of taxes as a percentage of total rural municipal operating revenue increased slightly from 60.4% in 1971 to 61.6% in 1984.[5]

4. SCHOOL PERSPECTIVE

Taxes and grants-in-lieu of taxes for school purposes have increased from $82.3 million in 1971 to $321.7 million in 1984, a compound average annual percentage increase of 11.1%. This represents a compound average annual percentage rate of 2.5% over and above the general rate of inflation.[6] In terms of the relative reliance on property taxes, schools

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[1] Also see Appendix I-19.

[2] See Appendix I-20.

[3] See Appendix I-4.

[4] See Appendix I-6 and I-21.

[5] See Appendix I-8.

[6] See Appendix I-26.

CHART I-5
PROPERTY TAXES AS A PERCENT OF G.D.P.P.
1968 to 1985

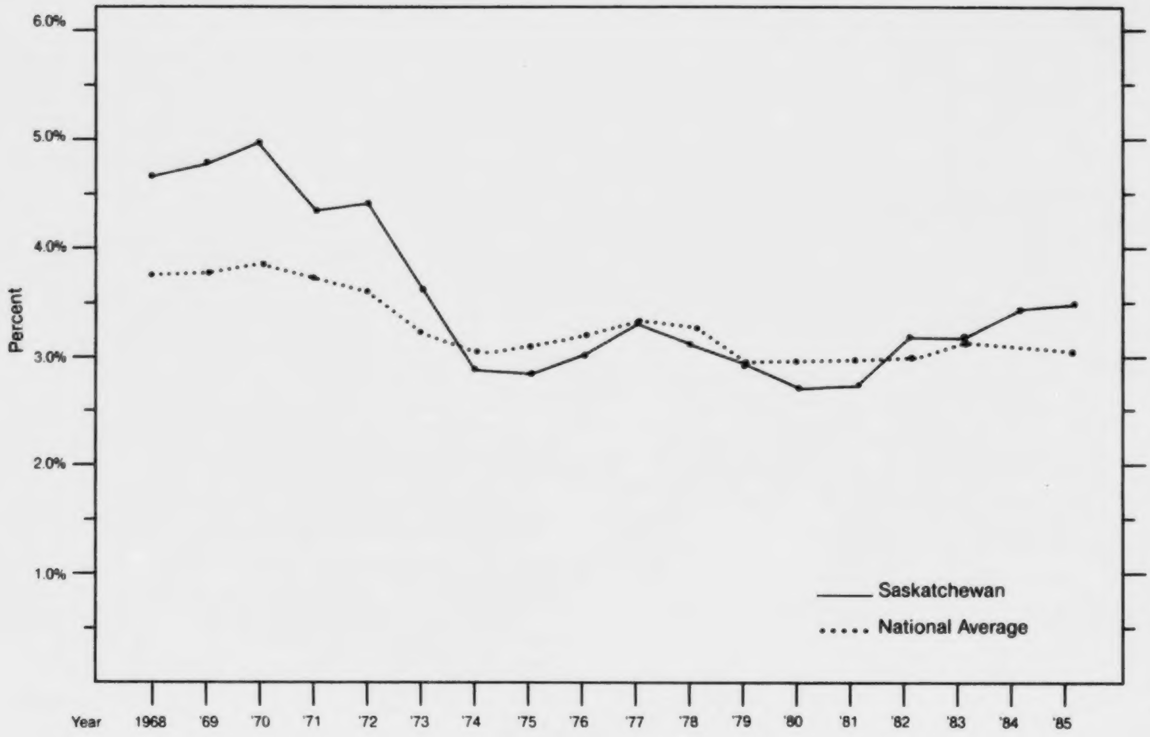
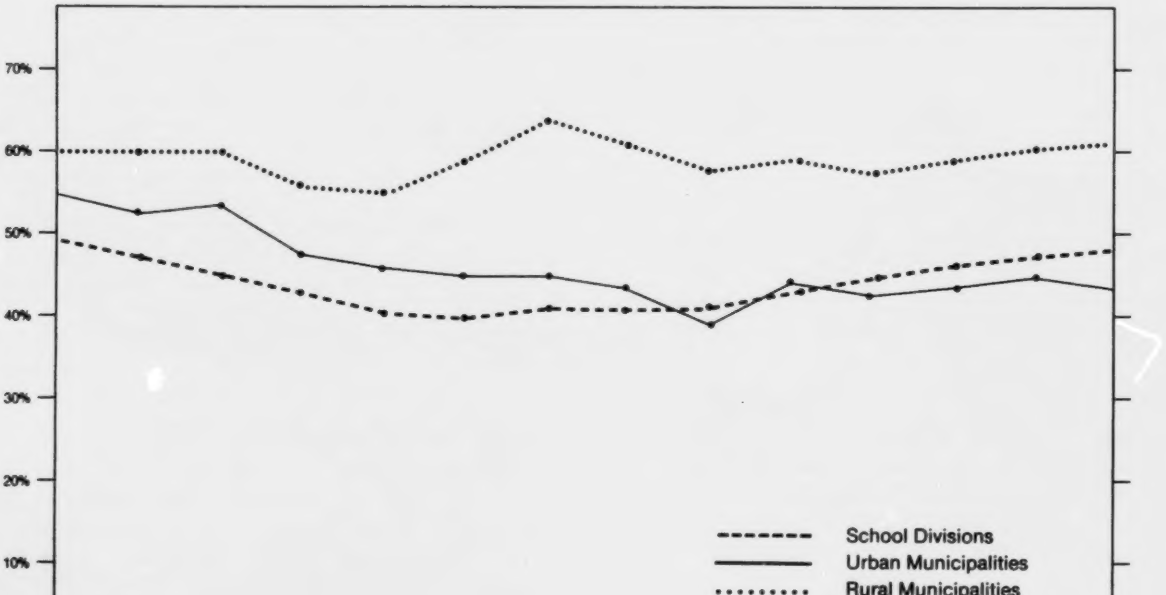


CHART I-6
PERCENTAGE OF OPERATING REVENUE FROM PROPERTY TAXES AND GRANTS-IN-LIEU
1971 to 1984



have reduced their dependence slightly on taxes and grants-in-lieu of taxes from 49.4% in 1971 to 47.6% in 1984.[7]

5. INDIVIDUAL TAXPAYER'S PERSPECTIVE

From the perspective of individual taxpayers, between general assessments, the assessment of their property remains unchanged from year to year, unless improvements are made to the property or, in the case of rural farmland, additional cultivated acres are added. This means that changes in property tax levels are reflected primarily in the changes in mill rates on the assessment.

Mill rates have obviously increased since 1971 and individual taxpayers pay more in property taxes today than they did 15 years ago. These facts, plus the high degree of "visibility" of the property tax relative to many other forms of taxation, have lead some people to conclude that there has been too much reliance placed on the property tax to finance local services. However, during this same time period, there has also been a general increase in the value of properties, an increase in incomes, and an increase in the general cost of goods and services.

For the 1971 to 1985 period, the compound average annual increase in overall mill rates has been less than the increase in the price of consumer goods and services.[8] This means that, excluding the effects of inflation, a property owner whose assessment has remained unchanged would pay less property taxes in 1985 than in 1971.

6. INTERPROVINCIAL COMPARISON

- Specific Municipalities

A 1985 study of 18 cities in Canada prepared by the City of Edmonton shows that in terms of net residential property taxes (property taxes after various property tax rebates are taken into account), the $1,636 in taxes on a standard house[9] in Regina is the second highest, while the $1,293 in Saskatoon ranks eighth.[10]

An October, 1985 quarterly survey of house prices and property taxes published by Royal LePage Real Estate Services Ltd., also shows that Regina's property taxes are high compared to other major Canadian cities, while Saskatoon's taxes are about average. A comparison of property taxes to the market value of a detached 3 bedroom bungalow shows that gross taxes represent 2.1% of house prices in Regina and 1.5% in Saskatoon, compared to an average of 1.5% for a selected sample of locations in the 6 westernmost provinces.[11]

The Commission also examined the relative taxation on farmland in the three prairie provinces, based on the farmland which is rated the highest in each province. The results showed that in regard to the samples acquired, Saskatchewan's taxes were at an approximate mid-point between those of Alberta and Manitoba.[12]

Comparisons such as the foregoing have limited usefulness, partly because reasons for the different levels of property taxation cannot be readily determined. The decisions by individual local governments to provide different levels of service, the level of commercial and industrial development which serves to lessen the residential and farmland share of property taxes, and the level of provincial financial assistance all may be part of the explanation of why there are different levels of property taxes and degrees of reliance on property taxes to finance local services.

- Property Taxes and Farm Income

Another interprovincial comparison with regard to farmland shows that for the 1979 to 1984 period, property taxes paid by farmers as a percent of realized net farm income averaged 10.0% in Alberta, 12.9% in Saskatchewan and 21.8% in Manitoba.[13]

- Overall Per Capita Comparisons

Another approach to interprovincial comparisons is to examine the per capita amount of property taxation.[14] It is estimated that, in 1985, gross property taxes in Canada amounted to $566.94 per capita, while in Saskatchewan, they were 9.8% higher at $622.69 per capita. Saskatchewan's level is the fifth highest in Canada. All provinces west of Quebec have higher per capita gross property taxes than Saskatchewan, but the Atlantic provinces and Quebec are all considerably lower.

Taking into account the effect of tax credits and rebates, Saskatchewan's net property taxes per capita amounted to $598.13, 16.3% higher than the Canadian average of $514.37. Net property taxes per capita in Saskatchewan are the third highest in Canada. Ontario and Alberta have higher net property taxes than Saskatchewan, but all other provinces are lower. (See Chart I-7.)

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[7] See Appendix I-12.

[8] Over the 1971-1985 period, the compound annual rate of increase has been 8.3% for the Consumer Price Index (Regina), 6.7% for urban mill rates, 7.9% for rural mill rates, and 7.1% for school mill rates. See Appendix VIII-2 and Appendix I-20.

[9] A three bedroom bungalow 5 to 8 years old, with 1,200 square feet and a one-car garage on a 5,500 square foot fully serviced lot.

[10] A property tax rebate of $230 would have reduced Regina and Saskatoon's taxes to $1,406 and $1,063 respectively or fifth and eleventh among the 18 cities.

[11] See Appendix I-22.

[12] See Appendix I-23.

[13] See Appendix I-24.

In terms of the Prairie Provinces, Saskatchewan gross property taxes are lower than in either Alberta or Manitoba. In terms of net property taxes, Saskatchewan is lower than Alberta, but higher than Manitoba.

- Summary

Comparisons based on samples of individual municipalities are inconclusive and can be misleading in any event because of the various reasons for different levels of property taxation in particular municipalities. On an overall per capita basis, it is apparent that property taxes in Saskatchewan are somewhat higher than in most other provinces.

7. LEVEL OF EXPENDITURES AND LEVEL OF SERVICE

The Commission believes that local governments are, in general, providing appropriate levels of services. Levels of service are subjective matters, but the Commission neither heard during its consultation processes nor did it acquire information during its research activities, to suggest that local governments as a whole were providing either too many or too few services.

Some comments were heard about the need to improve the efficiency of local governments. The Commission believes that governments, at all levels, need to be constantly aware of the importance of examining how they deliver services with a view to accomplishing a maximum of quality in services with the least possible expenditure of public funds. There is a general public desire for maximizing services, but this is balanced against the levels of taxation that are required to finance those services.

Some individual local governments are currently unduly constrained in the level of services they can provide because of inadequate equalization in provincial funding programs.These issues will be addressed in Part III of this report.

In short, the Commission has undertaken its respective reviews with the view that current levels of services and expenditures are, on an overall basis, reasonably appropriate. The Commission undertook its work with a view to determining how the current levels of services can be best funded, not with a view to determining how to finance either increased or decreased levels of services and expenditures.

8. ROLE OF THE PROPERTY TAX

The Commission examined a number of potential local sources of revenue, but concluded that only the property tax was both capable of being administered and controlled at the local level as well as capable of generating sufficient revenue to meet the needs of local governments. A number of local sources of revenue are available to local governments to supplement the property tax, but none are of sufficient magnitude to replace it.

A number of sources of revenue that are capable of producing large amounts of revenue are available, but the Commission found that it was not practical for them to be controlled and administered by individual local governments. These sources of revenue could be feasibly administered only at the provincial level. Unless a source of revenue can be made subject to the setting of different tax rates by individual local governments, it cannot be classified as a local source of revenue. **In short, the property tax is the only practical local source of revenue capable of meeting the needs of local governments and it must continue to be relied upon as their major local source of revenue.**[15]

9. ROLE OF PROVINCIAL FUNDING

The two most important roles performed by provincial payments to local governments are:

- Supplement the Revenues from the Property Tax

Notwithstanding the critical role played by the property tax in the funding of local government, the property tax and other local sources of revenue are not sufficiently large to finance locally delivered services unless they are supplemented by revenues from the broader tax base of the provincial government.

Approximately $634 million was raised from property taxes in Saskatchewan in 1985. School divisions accounted for about 51% of this total, municipalities about 45%, and hospital and library boards about 2% each. Operating transfers to municipalities and school divisions alone amounted to about $485 million. If these revenues had to be raised from the property tax, the latter tax rates would have to be about 76% higher than they are now. This would clearly require an excessive reliance on the property tax. Provincial funding is necessary in order to ensure that local

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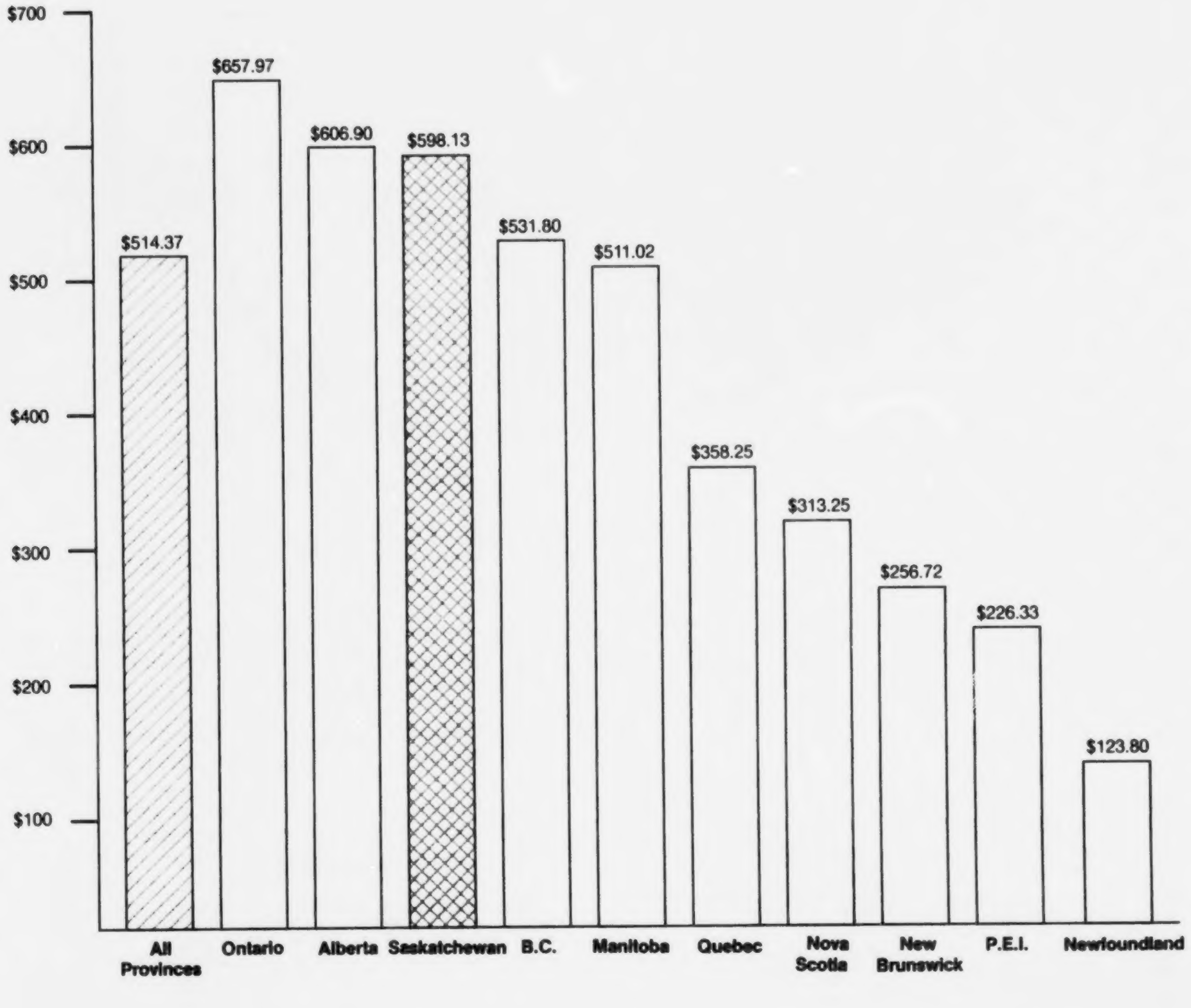
[14] See Appendix I-25.

[15] This subject was explored in greater depth in **Alternative Local Sources of Revenue and Utilization of the Property Tax Base,** a September, 1985 interim report of the Commission.

CHART I-7
INTERPROVINCIAL COMPARISON OF NET PER CAPITA PROPERTY TAXES
1985



governments are not required to levy unduly high local property taxes.

- Equalization

  The equalization principle must be incorporated into provincial funding of local governments to ensure that there is an opportunity for comparable communities to have comparable services and to ensure that the services can be provided at comparable rates of taxation.[16]

  There is considerable variation among local governments in terms of the size of their local tax base relative to expenditures which they are required to make. Some local governments have relatively large tax bases and are able to provide extensive services with low or moderate mill rates even without provincial funding. Other local governments have relatively small local tax bases and without provincial funding could have only a low level of services, high mill rates, or both.

Some provincial transfers to local governments, particularly the conditional transfers, have the purpose of ensuring that certain services that are deemed to be important by the provincial government, are indeed provided. This role of provincial funding is discussed in Parts III and IV of this report.

Much of this report is based on the principle that a substantial amount of provincial funding is required to supplement the local tax base and to promote equality in levels of service and local tax rates.

10. FAIRNESS IN TAXATION

It is important that there be fairness in the taxation system that supports local governments. The Commission believes that a number of major improvements can be made in promoting greater fairness. These include broadening the local property tax base, avoiding over-reliance on the property tax, implementing an income based property tax credit, and improving equalization in the distribution of provincial monies among local governments. Each of these is referred to in subsequent Parts of the report.

While the Commission believes that the local governments will continue to rely on the property tax for a major portion of their revenues, the Commission also recommends some substantial changes to ensure that there is greater fairness in local taxation.

11. OBSERVATIONS/CONCLUSIONS

The aggregate level of property taxation has increased as has many other taxes, but the important question is whether or not the level of property taxation is appropriate in meeting the needs of the different types of local governments and whether it is fair and in keeping with the interests of the taxpayers.

On a relative basis, urban municipalities rely much less on property taxes today than they did in 1971. Schools have reduced their reliance on property taxes slightly, while rural municipalities have increased their reliance on property taxes slightly.

Overall, as a percentage of total provincial income (G.D.P.P.) property taxes are 25% lower today than they were in 1968.However, since 1981, property taxes have represented an increasing proportion of G.D.P.P.. While there has been an overall decline in the relative reliance on property taxes in Saskatchewan since 1968, the trend over the last few years has been the reverse.

On the basis of certain surveys, Saskatchewan's property taxes, on an overall basis, are higher than in most other provinces in Canada.

Residential property taxes appear to be relatively high in major urban centres in Saskatchewan, compared to other provinces.

Taxes on Saskatchewan farmland appear to be lower than in Manitoba, but higher than in Alberta.

The Commission notes that the elimination of property tax rebates has served to substantially increase the overall net level of property taxation. As noted in earlier reports, the Commission proposes an income-based property tax credit to address the regressivity of the property tax and to compensate for its insensitivity to changes in ability to pay.[17]

The major thrust of the Commission's proposals is to address the issues of fairness in taxation and the equitable distribution of government transfer payments. The Commission has proposed the following measures to improve the fairness of the property tax in Saskatchewan:

- An income-related property tax credit was proposed as a means of compensating for the insensitivity of the property tax to changes in ability to pay and to compensate for the regressivity of the property tax for those with low incomes.

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[16] The concept of equalization is discussed at length in Part III of this report, where provincial operating funding for municipalities and school divisions is discussed.

[17] See **January 1985 Interim Report**, pp. 37 to 41, and **Alternative Local Sources of Revenue and Utilization of the Property Tax Base**, September 1985, p. 29.

- Major changes were proposed for the assessment function. Improvements are required in assessments to ensure greater equity in the distribution of the property tax load.[18]
- Property taxes are unduly high for taxpayers of some local governments. The Commission has proposed substantial changes to the formulas used to distribute provincial funds among local governments to ensure that there can be greater equality in both local tax rates and the level of services.[19]

The Commission has also proposed measures which will have the effect of reducing the level of property taxes in Saskatchewan:

- In order to implement the package of reforms proposed in this report, it will be necessary to increase provincial government transfer payments to local governments, increase the payment of grants-in-lieu of property taxes by the provincial government, and eliminate certain exemptions from the property tax. These measures were intended to address issues of fairness, not the level of the property tax but, nevertheless, they will have the effect of lowering the property tax load for current payers of the property tax by an average of about 20 mills, or by about 9% on average.[20]
- The proposed income-related property tax credit will have the effect, not only of improving the fairness of the overall tax system, but it will also reduce the net level of property taxation.

The combination of these measures will reduce the net level of property taxation in Saskatchewan below the Canadian average.

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[18] These changes were proposed in the September, 1985 interim report, **Property Assessments in Saskatchewan.**

[19] The recommendations on these matters are dealt with in Parts III and IV of this report.

[20] The overall costs of the package of reforms are dealt with in Part VII of this report.

PART II

THE LOCAL TAX BASE

In Part II, the Commission examines a number of issues pertaining to the local tax base, with particular reference to the property tax base.

The issue of exemptions from property taxation and the related issue of payment of grants-in-lieu of taxes for exempt properties are examined in Chapter One.

In Chapter Two, the Commission deals with the system of surcharges and grants paid by the Saskatchewan Power Corporation.

In Chapter Three, the Commission examines the issue of commercial/industrial tax sharing with particular reference to the potash tax sharing arrangements.

In Chapter Four, the Commission examines the issues concerning the business tax.

In Chapters Five and Six, the Commission outlines its study of rural improvements and the use of market value information in assessing properties.

CHAPTER ONE

EXEMPTIONS AND GRANTS-IN-LIEU OF TAXES

1. INTRODUCTION

Real property is the major tax base for local governments and is likely to continue to be a major local source of revenue. However, not all of the potential real property tax base is actually subject to taxation. Because about 19% of the potential tax base is exempt from taxation, exemptions have substantial implications for the financing of local governments and warrant considerable attention by the Commission.

It is not only the fact that local governments do not have access to a considerable part of their potential tax base that makes the subject important; it is also important from the standpoint of equity in taxation. The fact that some properties are exempt from taxation means that those who pay the taxes on taxable property must pay a correspondingly higher load than would be the case if the exempt property were taxable. Exemptions normally have the effect of shifting the property tax load and the main question is whether or not such shifts result in a fair distribution of the tax load.

2. EXEMPTION FROM ASSESSMENT V.S. EXEMPTION FROM TAXATION

Some types of property are exempt from assessment and are, therefore, automatically exempt from property taxation. Personal property, farm machinery, stock-in-trade, automobiles, lakes, streams and roadways are examples of public and private properties which are not assessed and do not become part of the property tax base.

Other properties are required to be assessed and form part of the potential tax base, but are exempt from taxation. Places of public worship, public schools, municipal property and hospitals are examples in this category. These properties form part of the municipal assessment rolls, but are not part of the tax rolls.

The Commission's analysis of exemptions will be limited to those categories of properties which are required to be assessed but which, for various reasons, are exempt from taxation.

3. BASIS OF EXEMPTIONS

Property is generally made exempt from taxation on one of two bases:

- The use to which the property is put.

  Examples of properties which are exempt because of the nature of the use to which the property is put are improvements used in the operation of a farm, and facilities used as places of public worship.

- The ownership of the property.

  Examples of property which would normally be taxable, but which are exempt by virtue of the ownership of the property are office buildings owned by a municipality, school buildings used by a school division, facilities owned by the Y.M.C.A., and property of the Crown.

4. AUTHORITY FOR EXEMPTIONS

There are several sources of authority for determining which properties are exempt from assessment or taxation:

- The Constitution

  Section 125 of the Constitution states that properties owned by the provincial and federal governments are not liable to taxation. Provincial legislatures cannot make properties taxable if they are exempt by virtue of the terms of the Constitution.

- Provincial Statutes

  The Rural Municipality Act, The Northern Municipalities Act, and **The Urban Municipality Act, 1984** all provide for certain types of exemptions.

  Several Acts of the provincial Legislature sponsored by private members of the Legislative Assembly provide for the exemption of certain properties owned by religious orders, private schools and charitable organizations.

  Other Acts dealing with particular types of institutions or facilities also incorporate provisions exempting property from taxation.

For example, the Acts dealing with the University of Regina and the University of Saskatchewan exempt the property of those institutions from taxation, and **The Housing and Special Care Homes Act,** exempts facilities which are developed under the provisions of that Act.

- Municipal Bylaws

  Provincial statutes set out the duties and powers of municipal governments. One of the powers granted to municipalities is the authority to pass bylaws exempting, by bylaw, all or any portion of any assessment of land, improvements or business from taxation for the current year. In addition, urban municipalities may also, by bylaw, enter into an agreement with the owner or occupant of a property or business to provide for an exemption of up to five years.

5. ABATEMENTS, DISCOUNTS AND PENALTIES

A. Abatements

Municipalities also have the authority to abate, compromise, or refund all or a portion of property or business taxes.[1] The net effect of an abatement is essentially the same as an exemption in that they both remove what would otherwise be an obligation to pay taxes, but there is a fundamental difference in how they come about. When a property or business is exempt, it does not appear on the tax roll and, hence, no taxes are levied on the property. An abatement, compromise, or refund of taxes applies to non-exempt properties in respect of which taxes have been levied, but for which the obligation to pay the taxes levied, has been removed.

B. Discounts and Penalties

The Urban Municipality Act, 1984 enables municipal councils, by bylaw, to set their own percentage discount for the prompt payment of taxes.

The Rural Municipality Act specifies statutory rates for discounts of 5% for taxes paid before October 1, 4% before November 1 and 2% before December 1 in the year in which taxes are levied. The Act permits councils, by bylaw, to provide a discount of 6% for taxes paid before a date no later than August 31 in the year in which the taxes are levied.

The Urban Municipality Act, 1984 permits urban councils, to set, by bylaw, their own percentage penalty rates, both for the non-payment of taxes by dates specified in the bylaw and for taxes unpaid after December 31 in the year in which they were imposed. **The Rural Municipality Act** requires penalties to be charged on taxes in arrears at rates related to the Bank of Canada rate on the preceding December 1.

Discounts and penalties are intended to serve as an incentive for the early or prompt payment of taxes, thereby reducing the need for local governments to borrow to finance their operations. They are not intended as a means of relieving a particular type of property from taxation and, for this reason, are quite different from either exemptions or abatements.

6. SASKATCHEWAN RURAL AND URBAN MUNICIPAL ACTS

The Rural Municipality Act provides for tax exemptions on the following properties:

- minerals;
- Crown property;
- Indian lands;
- school property used for offices, storage, maintenance and educational services;
- places of public worship;
- hospitals;
- non-profit cemeteries;
- all property belonging to the municipality;
- land owned by other municipalities used for municipal purposes;
- buildings and grounds of agricultural societies;
- all buildings on land greater than three acres where farming is the occupant' chief source of income;
- buildings used for farming (other than the residence) on land greater than three acres where farming is not the occupant's chief source of income;
- the value of non-farm buildings on land exceeding three acres up to the value of the land owned by the occupant and used for agricultural purposes;

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[1] Rural municipalities must obtain the approval from the Minister of Rural Development for these measures.

- greenhouses;
- unoccupied farmstead buildings;
- property owned and occupied by veterans' associations;
- war memorials;
- municipal airports;
- community halls owned by co-operative associations.

The Urban Municipality Act, 1984 provides for exemptions similar to those under **The Rural Municipality Act** and provides for the following additional exemptions:

- public libraries;
- properties of the Y.M.C.A. and Y.W.C.A.;
- law schools;
- properties of the Canadian Mental Health Association.

7. EXEMPTIONS IN OTHER PROVINCES

There is almost universal exemption from taxation of certain types of properties in all Canadian provinces.[2] These include:

- Crown property (Crown property, as noted above, is not exempt by virtue of the exercise of legislative discretion by Parliament or by provincial legislatures, but is exempt by virtue of the provisions of the Constitution);
- churches;
- property of public schools;
- public libraries;
- hospitals;
- municipal properties;
- cemeteries.

There are some variations from the general pattern in individual provinces: For example:

- In Ontario, only public (not private) hospitals are exempt.
- In New Brunswick and Prince Edward Island, only non-profit cemeteries are exempt while, in Nova Scotia, only church cemeteries are exempt.
- In British Columbia and Manitoba, property of one municipality that is located in another municipality is taxable.

In some provinces, the exemption of a particular type of property may be applied universally by provincial statute, while in others, the exemption may be available only through bylaws passed by individual municipalities. For example, non-profit or charitable societies may be exempted by municipal bylaw in British Columbia, Manitoba and Nova Scotia, but they are made exempt by provincial statute in Ontario, Quebec, New Brunswick and Newfoundland.

In some provinces, such as Saskatchewan, municipalities can, by bylaw, exempt any type of property from taxation. In Newfoundland, such exemptions require the unanimous vote of council and the approval of the minister. In other provinces, such as Ontario, Manitoba and B.C., municipalities may exempt only certain specified types of property. In Nova Scotia, a municipal council may, by bylaw, allow the taxation of specified properties at a rate less than the commercial rate, but not less than the residential rate. In Alberta, a non-profit organization may apply for an exemption from a municipal council and, if refused, appeal to the Local Authorities Board, whose decision is final.

With regard to exemptions from school taxes, in Newfoundland a school authority may exempt any property from school taxation with the approval of the minister. In Manitoba, housing for the aged, agricultural and veterans' associations, charitable, educational or religious institutions, community halls and Y.M.C.A. buildings are exempt from school taxation. Those same properties may, by bylaw, be made exempt from municipal taxation.

Farm buildings, railways, pipelines, utilities, transmission lines, machinery and equipment and personal property are treated differently across Canada. In some cases, certain of these types of property are totally exempt, in other cases, they are partially exempt and, in still others, they are taxed at legislated rates which do not reflect standard assessment and taxation practices.

8. MAGNITUDE OF EXEMPTIONS

Based on the new (1976) values, the assessed value of all assessable property in Saskatchewan in 1984 is estimated at $7.039 billion, of which $1.346 billion or 19.1% is exempt.[3]

Of the $1.346 billion of exempt assessment, grants-in-lieu of taxes are paid by the federal and provincial governments on $245.2 million, or 18.2%. The provincial and federal governments have other properties with an assessment of $163.4 million, or 12.1% of total exempt assessment on which no grants-in-lieu of taxes are paid.

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[2] See Appendix II-1 for a more detailed outline of exemptions in other provinces.

[3] See Appendix II-2. Also, see Chart II-1.

Assessed values referred to are based on the "new" or 1976 manuals.

Property owned by municipalities, school divisions, and other local governments account for 36.1% of all exempt assessment.

Universities and colleges account for 6.9% of exempt assessment and hospitals 5.1%. Churches account for 4.4% of total exempt assessment, or 0.9% of total assessment.

Agricultural improvements account for 12.1% of exempt assessment and other statutory exemptions 4.3% of exempt assessment.

Only 0.6% of exempt assessment arises from municipal bylaws.This amounts to about one-tenth of 1% of total assessment.

9. GRANTS-IN-LIEU OF TAXES

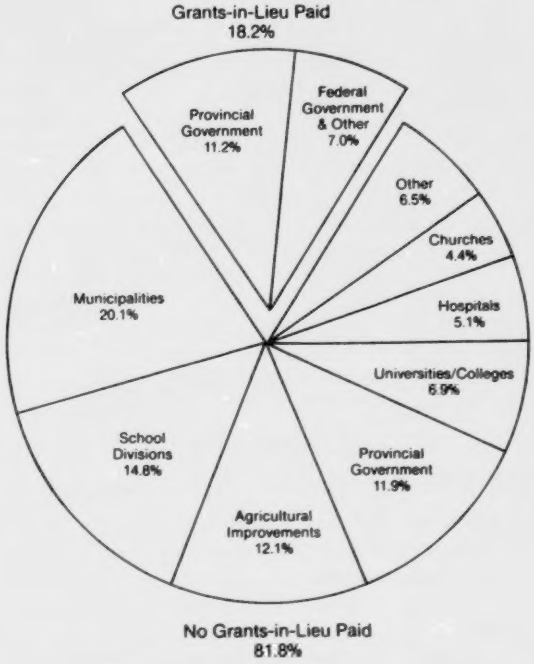
Although there is a constitutional prohibition against the taxation of federal or provincial government property, the federal government and most provinces have policies under which they pay grants-in-lieu of taxes to the local governments. The grants are usually equivalent to the revenue which would be raised if the property were on the tax roll and subject to the same levies as private property.

The federal government pays grants-in-lieu of taxes on nearly all of those properties which would be taxable if they were privately owned, including:

- offices;
- service buildings;
- housing;
- airport buildings;
- research centres;
- nurseries;
- the land directly associated with those buildings.

The federal government also pays grants-in-lieu of taxes on jails and court houses, but does not pay such grants for monuments, land and buildings in national parks, preservation parks, ornamental parks around public installations, canal structures, airport runways, reservoirs, roads, and forests.

CHART II-1
PERCENTAGE DISTRIBUTION OF EXEMPT ASSESSMENT



Policies on the payment of grants-in-lieu of taxes vary considerably among provincial governments.[4] Some significant facts on provincial policies are:

- Most provincial Crown corporations pay grants-in-lieu of taxes equivalent to full taxation by local authorities. In Newfoundland, Crown corporations generally do not pay grants-in-lieu of taxes, but a few pay municipal taxes, but not school taxes.
- Only in Saskatchewan and Newfoundland are no grants-in-lieu of taxes paid for either municipal and school purposes for provincial government property.
- The governments of Alberta, British Columbia, Manitoba (fixed grant), New Brunswick, Ontario, Prince Edward Island, and Quebec all pay grants-in-lieu of taxes on administrative buildings owned by the provincial government.
- Of the eight provinces which do pay grants-in-lieu of taxes for most of their property, British Columbia, Alberta and Ontario, pay only in respect to municipal, but not school taxes. In Prince Edward Island, New Brunswick and Quebec, education is either a provincial responsibility or nearly all the funding is done by the provincial government so that grants-in-lieu of school taxes either do not arise or are insignificant.

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[4] See Appendices II-3 and II-4.

Some provincial governments choose to pay grants-in-lieu of taxes on certain properties not actually owned by the provincial government. For example, Quebec pays a grant-in-lieu of taxes on elementary and secondary schools.

There is a substantial variation among the provinces in the revenues local authorities receive from grants-in-lieu of taxes, arising from the different policies in effect in those provinces.[5] Saskatchewan local authorities receive among the lowest amounts of grants-in-lieu of taxes, both as a percentage of gross general revenue and on a per capita basis.

The estimated 1984 grants-in-lieu of taxes paid by the Saskatchewan Crown corporations and other provincial government agencies is $16.5 million. If grants-in-lieu of taxes were paid on all exempt provincial government assessment, it would amount to an estimated additional $17.8 million.[6]

10. ARGUMENTS FOR AND AGAINST EXEMPTIONS

Arguments put forward by those who support tax exemptions include:

- They provide a means by which a local government can provide encouragement and financial assistance to a charitable organization or other institution that is deemed to be of value to the community.
- They provide a means of alleviating a burden on certain groups or individuals who would find it difficult to pay the taxes.
- They provide an opportunity for municipalities to provide enticements for industry to locate in their area.
- The level of assistance automatically increases over time as assessments and mill rates rise.
- Once an exemption is decided upon, no further debate need take place from year to year on the principle of providing the assistance to an organization, nor on the amount of such assistance.
- Compared with providing assistance through a grant, exemptions can reduce controversy because decisions on the value of assistance do not need to be made each year.

Arguments which have been used by those who are against exemptions include:

- Exemptions reduce the local tax base thereby increasing the taxation on non-exempt property.
- Most exemptions arise because of the provisions of the Constitution or acts of the provincial legislature. It is the tax bases of local governments which are being affected by exemptions, yet local governments are not the bodies which make such decisions.
- The proportion of property exempt from taxation varies from community to community, meaning that there are disproportionate burdens created for those who pay taxes on the non-exempt property in those respective communities. For example, exempt provincial government property is normally concentrated in the capital city.
- Because of the fact that exemptions are subsidies which are usually not visible to the public, the democratic principle of accountability is correspondingly impaired.
- The value of the benefit provided through a tax exemption may bear little relationship to the level of public assistance which is required by the organization or which is warranted by virtue of the level of services provided to the community by the organization.
- Once exemptions are established, they are difficult to terminate, regardless of their merit. Further, the role or services provided by the benefiting organizations may change over time and the exemption may no longer be seen as appropriate.
- The owners or occupants of non-exempt property must bear the tax load not borne by the exempt property. The services provided by the organization which owns or occupies the exempt property, on the other hand, may accrue to those who are beyond the boundaries of the municipality in which the exemption is provided.

  Some municipalities use tax exemptions as a means of competing with other municipalities in the attraction of industry to their area. In the process, an unfair burden of taxation may be created for other taxpayers in the municipality.

The Commission believes that the theoretical arguments against exemptions are substantially stronger than the arguments in favour of exemptions. The Commission is also of the view that a general conclusion on the broad subject of exemptions is of little value. Instead, the Commission believes that each category of exemption needs to be examined individually, because the circumstances pertaining to each, and the implications of having or not having a particular exemption, vary considerably.

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[5] See Appendix II-5.
[6] See Appendix II-2.

11. CRITERIA FOR EXAMINING THE ISSUE OF EXEMPTIONS

The Commission has identified the following criteria for use in analyzing the merits of each category of exemption:

- Shift of Tax Load

  Would the removal of the exemption shift the tax load within a community or between communities? If there would be little or no shift in the tax load, there may be little consequence in either having or not having the exemption.

- Equity of Tax Shift

  If a tax shift arises because of an exemption, the question arises as to whether or not the shift is equitable. In other words, would equity in tax load be promoted by either retaining or eliminating the exemption?

- Administrative Costs

  The magnitude of any additional administrative costs needs to be weighed against the benefit of a tax shift which may be involved.

- Specific Principles or Characteristics

  There may be principles or characteristics that are unique to a particular category of property that need to be taken into account, including the nature of the property and the ownership of it.

Exemptions for a particular type of property are often justified on the basis that there are economic spin-off benefits to the community that arise because of the location of property in the community, and the employment and spending in the community that accompanies its location in the community.

The Commission is of the view that virtually all types of property have economic spin-off benefits to a community and that if this criterion were used, there would be an argument for having an exemption for all property. Obviously, this would be a ludicrous conclusion. In short, the Commission believes that the existence of economic spin-off benefits associated with property is not a valid or helpful criterion.

12. PROPERTY OF THE PROVINCIAL AND FEDERAL GOVERNMENTS

As noted earlier, exemptions for the property of the federal and provincial governments do not arise because of discretion exercised by Parliament or by the legislative assemblies of the provinces but, rather, by virtue of the provisions of the Constitution of Canada. The question with regard to federal and provincial government property is not whether or not there should be an exemption of these properties, but whether or not the governments should have policies under which they pay grants-in-lieu of taxes on the properties.

Government property is assessed even though it is not taxed, and, normally, grants-in-lieu of taxes are paid in amounts which are equal to the application of the local mill rates to the assessed value of the property. When grants-in-lieu of taxes are paid in this way, there is no financial difference to the local governments compared with the situation that would exist if the properties were taxable, other than in regard to the application of discounts and penalties and, possibly, the timing of payments.

The federal government currently pays grants-in-lieu of taxes on nearly all of its property and, in 1984, this amounted to about $10 million in payments in Saskatchewan. As noted earlier, the provincial government pays grants-in-lieu of taxes on some of its property, mainly the property of Crown corporations, and these grants amounted to approximately $16.5 million in 1984.

If the government of Saskatchewan were to pay grants-in-lieu of taxes on all of its property, an additional $17.8 million in grants would be paid. Of this total, $12.0 million would go to Saskatoon and Regina, $3.2 million to other urban communities and $2.7 million to rural municipalities.

The Commission recommends that the Government of Saskatchewan pay full grants-in-lieu of taxes on its property in the same amounts as would be the case if the properties were privately owned.

The main reasons for this conclusion are that it would increase the local tax base of local governments, reduce their dependency on provincial grants or other fiscal transfers and correspondingly augment their independence or autonomy, and improve the fairness and consistency of treatment among property owners. In short, the Commission believes that it would strengthen local governments.

The property tax base is the only sizeable local tax base available to local governments. Failure to pay grants-in-lieu of taxes on provincial government property has the effect of artifically removing a significant portion of their local tax base - a tax base vital to the functioning of local governments.

Grants-in-lieu of taxes are not "handouts". Grants-in-lieu of taxes represent the fair share of the taxes which should be paid in regard to the local tax base by the provincial government.

Grants-in-lieu of taxes are quite different from other grants and transfers. Once a policy decision has been made to pay the grants-in-lieu of taxes, and the decision is incorporated in legislation, they are not subject to the same level of discretion or judgment on the part of the provincial government each year, as are transfer payments. Instead, they are determined by the property assessment system and decisions by local governments on mill rates. Local governments determine the amount raised from the property in respect of which the grant-in-lieu of taxes is paid in the same way as they determine the amount raised in regard to other property. In order for the provincial government to change grants-in-lieu of taxes, a substantial change in policy would have to be made, and such changes are made very infrequently.

Other reasons why the Commission concluded that the Government of Saskatchewan should pay full grants-in-lieu of taxes on its property are:

- Provincial government property is not located uniformly throughout the province. The exemption of government property has a proportionately larger negative financial impact on the revenue base of some communities than others. The payment of grants-in-lieu of taxes would remedy this situation.
- The payment of grants-in-lieu of taxes would result in a significant shift in the tax load within the communities in which there is a significant amount of government property. There would be little point in paying a grant-in-lieu of taxes unless there were a shift in the tax load.
- The fact that there are employment and hence economic spin-off benefits arising to a community by virtue of government property being located there is not a valid reason for not paying grants-in-lieu of taxes on the property. For example, a privately owned office tower which houses private sector employees provides employment and economic spin-off benefits just like a government office which houses employees of the provincial government, yet this fact is not accepted as a valid reason for exempting the former from taxation.
- Current policies entail some rather arbitrary practices. For example, if the government rents an office building for its employees and the building is owned by the private sector, the owner pays taxes and, in effect, the provincial government reimburses the owner for the taxes through the rent that is paid. On the other hand, if that same office building were owned by the provincial government, no taxes or grants-in-lieu of taxes would be paid under current policies. Another actual example is in regard to an office building which was once owned by a Crown corporation and in respect of which grants-in-lieu of taxes were paid. That same office building is now owned by the provincial government, rather than by a Crown corporation, and grants-in-lieu of taxes are no longer paid on the property. The building is still being used as office space and is still being used for provincial public sector purposes, but its tax status changed. The payment of grants-in-lieu of taxes would rectify these anomalies.
- Most municipalities would be in financial difficulty if they had to rely solely upon the residential sector for their local revenues. The commercial/industrial sector is relied on to bear an important portion of the local taxes in most communities. The non-payment of grants-in-lieu of taxes on government property means that the public sector equivalent of the commercial/industrial sector is not paying its fair share of the local taxes.

Although the following were not critical factors to the Commission in coming to its conclusions, the Commission also made these observations in regard to the payment of grants-in-lieu of taxes by the provincial government:

- The benefits from the payment of grants-in-lieu of taxes accrue to more than just the communities in which the government properties are located. The revenue base of each community is an important component in the equalization grant calculation under rural revenue sharing, the foundation grant calculation under urban revenue sharing, and the school foundation grant calculation. The greater the local revenue base, (including grants-in-lieu of taxes) that a community has, the less they receive under these equalization calculations, and the more monies are available for distribution to other communities.

  For example, if an urban municipality becomes eligible for an additional $10,000 in grants-in-lieu of taxes, this will currently have the effect of reducing their foundation payment under revenue sharing by about $3,300. This $3,300 is then available for distribution to other communities in the form of additional equalization payments. If full equalization is provided, a much higher percentage of the additional monies would be distributed among other municipalities.[7]
- Saskatchewan is the only province besides Newfoundland where the provincial government does not pay grants-in-lieu of taxes on its properties. The fact that other

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[7] The formulas used to distribute urban and rural municipal revenue sharing monies, and the school foundation formula are discussed at length in Part III of this report, including the redistributive effects of an increase in local revenues.

provinces choose to adopt certain policies does not in and of itself lead to the conclusion that Saskatchewan should adopt the same policies. It does point out, however, that there is a general acceptance of the principles underlying the payment of grants-in-lieu of taxes on public sector properties.

SASKATCHEWAN ECONOMIC DEVELOPMENT CORPORATION (S.E.D.C.O.)

The policy of the Saskatchewan Economic Development Corporation is to pay grants-in-lieu of taxes equivalent to full property and business taxes on its property, except for vacant industrial or unproductive land. The Corporation takes the position that vacant industrial land yields no return or revenue and, therefore, no grants-in-lieu of taxes should be paid on these properties. Only when the land is sold or occupied is a grant-in-lieu of taxes paid to local taxing authorities.

As part of the provincial strategy to promote and assist economic development in communities, S.E.D.C.O assembles and develops land for industrial parks. The policy of not paying a grant-in-lieu of taxes on these vacant lands permits S.E.D.C.O. to sell these sites at relatively lower prices than vacant industrial land owned by private individuals or corporations. While not paying any taxes or grants-in-lieu of taxes does effectively lower the selling price of vacant land, it also places the Corporation in a relatively advantageous position compared to private land developers who also own and sell vacant industrial land.

The Commission notes that other forms of promotion, financial incentives and tax relief could be offered or provided to industries which would not create inequities in the sale of vacant land, but which would still meet the objectives of promoting and assisting economic development in various centres throughout the province.

In addition, it could be argued that although the land is vacant, it does have value and could appreciate in value over time, thereby producing a capital gain for the owner. Similar arguments have been made on behalf of vacant houses or houses occupied only for part of the year. The decision whether or not to build on a particular site or to occupy a house does not affect the assessed value of the land, or land and buildings in the case of the homeowner.

The Commission recommends that S.E.D.C.O. should pay full grants-in-lieu of taxes on all of its property, including vacant industrial land.

SASKATCHEWAN POWER CORPORATION

The Saskatchewan Power Corporation pays grants-in-lieu of taxes on a very small amount of its property, but it does have a system of grants and surcharges that are available to certain cities and towns. The Commission examines these areas in Chapter Two of this Part.

URBAN PARK AUTHORITIES

The Commission also notes that a number of provincial government office buildings and the Legislative Building in Regina are located within Wascana Centre which operates under an agreement to which the City of Regina, the Government of Saskatchewan and the University of Regina are parties. Certain services which would otherwise be a municipal responsibility are financed by the Wascana Centre Authority. Any payment of grants-in-lieu of taxes by the government of Saskatchewan in regard to properties located within the Wascana Centre should be adjusted to take into account the financial contribution of the Government of Saskatchewan to the Wascana Centre Authority, so as to avoid having the provincial government "pay twice" for the same set of services.

A similar principle should apply to any comparable situation which may exist with regard to the Meewasin Valley Authority in Saskatoon and the Wakamow Valley Authority in Moose Jaw.

13. LOCAL GOVERNMENT PROPERTY

It is estimated that municipal, school, hospital and library property constitutes 41.2% of all exempt property.[8]

In examining the issue of local governments taxing themselves and each other, the Commission relied upon the earlier-noted criteria for analyzing the merits of various categories of exemptions and also took into consideration the consistency and fairness of treatment among different types of local governments.

A. Municipal and School Property

The treatment of municipal and school property is important because together they constitute 35.0% of all exempt property.[9]

MUNICIPALITIES AND SCHOOL DIVISIONS TAXING THEMSELVES

If one were to suppose that a municipality could raise $1 million in additional revenue by taxing its own property, then it could lower the taxes for all "other" taxpayers. Taxpayers would get the benefit of the $1 million reduction in taxes in exact proportion to their respective shares of the total assessment in the municipality.

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[8] See Appendix II-2.

[9] See Appendix II-2.

However, one must consider who would pay for the $1 million in additional tax revenue obtained from the municipal property. Changing municipal property from exempt to taxable status does not in itself create any new revenue sources. The municipality would be required to levy $1 million in taxes on the rest of the municipal property owners to pay for the taxes on the municipal property. Each taxpayer would pay additional taxes in exact proportion to his share of the total taxes in the municipality.

Quite simply, for a municipality to tax its own property in and of itself does nothing to change either the mill rate or the distribution of the tax load in the community.

Exactly the same situation applies for a school division or any other local taxing authority which taxes its own property - there would be no change in the financial position of the school division, nor in any of its taxpayers arising from this change.

MUNICIPALITIES AND SCHOOL DIVISIONS TAXING EACH OTHER

If a municipality and a school division have coterminous boundaries and there is only a public school division in the municipality, there is no "bottom-line" shift in tax burden on taxpayers within the municipality, if municipalities and school divisions tax themselves and each other. The school mill rate may go up or down, depending on the value of property owned by the school division and the municipality respectively. However, this will be offset by an opposite and equal change in the mill rate of the municipality.

If there is both a separate school division and a public school division located in a municipality and if the municipality and school divisions taxed each other, there would be a minor shift between separate and public school supporters to the extent that they had different shares of total school property compared with their shares of the tax base.

In rural school divisions which are comprised of several urban and rural municipalities, but where the school facilities are typically located only in urban municipalities, it might appear on the surface that there would be a shift in net tax burden from the urban municipalities in which the school facilities are located, to the other municipalities. This might appear to be the case because the taxes levied on school facilities would accrue only to the municipality in which the school facilities are located, but would be paid for by all other municipalities in the school division, and because the assessment of school facilities might be assumed to be larger than the assessment of the urban municipal properties.

The Commission examined two different school divisions and found that in one there would be a minor shift in tax burden onto the rural municipalities but, in the other one, the shift would be the opposite. The directions and magnitude of the shifts depend upon the value of municipal versus school property and the respective school and municipal mill rates.

In short, although some shifts in tax burden are likely to arise from removing the tax exemption for municipal and school division property and having them tax each other's property, and although there is nothing to suggest that these shifts would be inappropriate, the question arises as to whether the complexities of adding close to $500,000,000 in additional assessment to the tax rolls would be worth the supposed minor change in relative tax loads and the additional administrative expense. The Commission is doubtful.

The Commission has a concern in regard to the impact which removal of the exemption for school and municipal property would have on equalization calculations in the municipal revenue sharing and school foundation formulas. The level of assessment in a jurisdiction is assumed to represent the ability of the jurisdiction to finance its own operations, relative to other jurisdictions. However, school and municipal properties do not represent an independent source of revenue for the jurisdiction. The remaining taxpayers in the jurisdiction have the responsibility for paying any taxes levied on school and municipal property. The inclusion of assessment of school and municipal property in the local tax base and, hence, in the local revenue portion of the calculation of equalization payments, would not be equitable because it would over-state the ability of the jurisdiction to generate revenues.

MUNICIPALITIES TAXING OTHER MUNICIPALITIES

A question arises in regard to the exemption of property owned by a municipality, but which is located in another municipality. In at least one province, British Columbia, such property is taxable in the municipality in which it is located. If this practice were adopted in Saskatchewan, rural municipalities would pay property taxes on their offices to the urban municipality in which the offices were located. Urban municipalities would pay taxes to the rural municipalities in which their garbage disposal sites, sewage lagoons, or machine storage properties were located.

There is no point in a municipality taxing its own property because, as noted above, it would do nothing to shift the load of taxation. In view of the objective of treating local government property consistently, it could be argued that the property of another municipality should also be exempt. However, the taxing of municipal property by another municipality, however, would create at least minor shifts in the tax load.

The Commission believes that most municipalities would be reluctant to tax another municipality's property, either through a sense of mutual interest and benefit in the current arrangements, or because of the interest in promoting intermunicipal co-operation.

B. Hospitals

Hospitals account for about $69.0 million or about 5.1% of all exempt assessment. This amounts to 1.0% of total assessment.[10]

Hospitals, undoubtedly, create economic spin-off benefits to the communities in which they are located. However, the Commission does not view this as a valid reason in and of itself to justify a tax exemption. Residents of communities in which hospitals are located also have the convenience and safety associated with immediate accessibility to hospital services, and this enhanced access to service is a stronger basis for justifying at least a partial exemption from taxes. On the other hand, as is the case with universities and colleges, the local municipality bears the sole financial responsibility for providing municipal services to an institution which serves people from a much broader area than the immediate municipality.

Little concern has been expressed about the tax exemption provided to hospitals. Perhaps municipal officials do not wish to appear to be proposing that there be a "tax on the sick" or that another burden be placed on the health care system. Municipal officials are also, no doubt, mindful of the benefits of having hospital facilities in their communities. Many communities which currently do not have a hospital would, in all likelihood, be quite pleased to have a hospital in their community with or without tax revenues from the hospital. Notwithstanding these observations, a primary question of fairness in the financing of public services still remains.

The Commission believes that placing additional financial pressure on hospitals through the elimination of their current tax exemption would not be in the best interests of the public. On the other hand, if the provincial government paid grants-in-lieu of taxes on behalf of all hospitals, including the hospitals owned by union hospital district boards and religious orders, then hospitals would not experience any additional financial pressures.

Hospitals are located in urban municipalities and, on the surface, it would appear that if hospitals were taxed, then there would be at least a minor shift in the tax burden from urban residents to rural residents. This arises because hospitals would pay taxes only to urban municipalities, but would obtain the additional local revenue to pay for these taxes by levying an additional amount on all property within the hospital district, including rural properties. On the other hand, if the provincial government paid a grant-in-lieu of taxes on behalf of all hospitals, then no shift in property taxes would arise.

C. Libraries

The Commission does not have any statistics on the value of the property tax exemption for libraries, since library facilities are owned by municipalities, except in the case of regional library headquarters which are owned by the regional library board.

D. Summary

In regard to the tax exemption of local government property, the Commission has concluded:

- **That there is little or no merit in having a municipality, school division or other**

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[10] See Appendix II-2.

local taxing authority tax its own property because this, in and of itself, would bring about no shift in the tax burden within the community.

- **That municipalities, school divisions, hospitals and libraries should not tax each other because making the properties taxable would redistribute the local tax load in only a minor way, and it would essentially be a meaningless bookkeeping exercise. Similarly, municipalities should not tax another municipality's property, etc..**
- **The Commission believes that it is important to have consistent and fair treatment of local government property, regardless of the type of local government which owns the property.**

The Commission recommends that the current property tax exemptions for municipal, school division, hospital and library property should be continued.

The Commission further recommends that regional library headquarters owned by a regional library board should be exempt from property taxation.

14. UNIVERSITIES/COLLEGES

As of 1984, universities and colleges[11] accounted for $92.6 million of exempt assessment, all of which is located in Regina and Saskatoon. This amounts to 6.9% of total exempt assessment and 1.3% of total assessment. If the properties were taxed at the prevailing mill rates in Regina and Saskatoon, an additional $10.7 million would be generated.

Some would argue that universities and colleges provide important educational services to the entire province and beyond the province, while it is only the taxpayers of the cities of Saskatoon and Regina which bear the cost of providing local services to those institutions. Accordingly, it could be argued that the universities and colleges should either have their tax exempt status terminated so that local property taxes would be paid by those institutions, or that the provincial government should pay a grant-in-lieu of taxes on behalf of those institutions.

It could be argued that the universities and colleges in Regina and Saskatoon provide economic spin-off benefits to those cities and that, for this reason, an exemption for these properties is justified. As mentioned in regard to the discussion of grants-in-lieu of taxes on provincial government property, private sector commercial/industrial institutions also provide economic spin-off benefits to their respective communities, yet this is not used as a basis for exemptions for those properties. As noted earlier, the Commission does not accept economic spin-off benefits, as real and important as they are, as a defensible basis for exemptions.

There are other types of benefits to the residents of the cities of Saskatoon and Regina from the universities and colleges that fall outside the category of economic spin-off benefits, but which are important to note. Residents of the two cities have greater physical accessibility to those institutions and also are able to attend those institutions without incurring the costs of board and room and transportation which residents outside those cities must incur. It could be argued that these types of benefits offset the costs incurred by the cities in providing services to the universities and colleges.

The Commission has sensed a reluctance on the part of the cities of Saskatoon and Regina to press for grants-in-lieu of taxes or a removal of tax exemptions for universities and colleges. This reluctance may arise from a fear that taking such positions may appear to represent an inappropriate degree of gratitude for the unmistakable positive benefit that those institutions have brought to their communities. Another explanation could be the fear of placing an additional financial burden on institutions which, along with other public institutions, are already facing substantial economic challenges.

The Commission does not believe that it would be in the public interest to place additional financial pressures on the universities and colleges. Such pressures would arise if the current tax exemption were removed and if the provincial government required the universities to meet all or a portion of the tax payments from their existing financial allocations. On the other hand, if the provincial government were to pay a grant-in-lieu of taxes on behalf of the universities and colleges, no additional financial pressures need arise for them.

Taking all circumstances and arguments into account, the Commission recommends that the property tax exemption for universities and colleges be eliminated, and that this additional expense to the universities and colleges be taken into account by the Government of Saskatchewan in determining its annual grants, so as to prevent an additional financial burden from falling upon these institutions.

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[11] These are colleges for which there is a general statutory exemption, and include only the colleges located on the campuses of the University of Saskatchewan and the University of Regina. Bible Colleges have been exempted, under various private members' bills and are included in the category "other statutory", in Appendix II-2. Technical institutes owned by the Government of Saskatchewan are included in the same category as other provincial government property.

The reasons for this conclusion are similar to those that the Commission considered to be important in regard to the payment of grants-in-lieu of taxes on property of the provincial government. In particular:

- The removal of the exemptions will strengthen local governments by expanding their local tax base and reducing their dependency on government grants.
- The exemption of the property of universities and colleges impacts negatively on the tax base of only two municipalities and the school divisions within those cities. Removal of the exemption, would correct this disproportionate impact.

The Commission also emphasizes that, as in the case of grants-in-lieu of taxes on provincial government property, the payment of grants or taxes on the property of universities and colleges will result in increases in revenue sharing payments to all urban and rural municipalities eligible for foundation and equalization payments under revenue sharing, and will result in increases in school foundation grants to school divisions outside Regina and Saskatoon. In other words, because of equalization-based transfers to local governments from the provincial government, most local governments would financially benefit from the payment of taxes on university and college property, not just the local governments in two cities directly involved.

15. CHURCHES

Churches currently account for $59.9 million of exempt assessment. This amounts to 4.4% of total exempt assessment and 0.9% of total assessment. If church property were taxable, approximately $6.5 million would be paid to municipalities and school divisions.

One argument for eliminating tax exemptions for churches is that the exemptions represent a subsidy, the cost of which is borne by the taxpayers of the municipalities as a whole, and that this is unfair, because some residents do not belong to or attend a church.

A counter-argument is that churches benefit society as a whole by providing services such as marriage counselling which would otherwise have to be publicly financed, and by the teaching and reinforcement of moral codes. It is further argued that those and other benefits to society outweigh the value of the tax exemption on their property, and that there is no net additional burden on the general population arising from the tax exemption.

Tax exemption for churches is a concept that is deeply embedded in our society and goes well beyond the arguments over shifts of tax load and the benefits of churches to society. In western democratic societies, the church and the state exist as separate and parallel institutions, each with distinct roles to play. It is not compatible with democratic principles for the church to exercise authority over the state, nor is it compatible with basic democratic rights and freedoms for the state to exercise authority over or assume the responsibilities of the church. Taxation is not only a means of revenue, but can be a form of regulation or control. The authority to tax, taken to extremes, can entail the power to jeopardize the very existence of churches.

In the view of the Commission, the overriding fundamental principle of the separation of church and state should be applied to this matter. **The Commission recommends that the tax exemption for churches should be continued.**

Under the provisions of a June, 1986 amendment to **The Urban Municipality Act, 1984,** the statutory exemption for the place of public worship was retained, but the provisions pertaining to the amount of land which is to be exempt was changed. Previously, there was a 0.81 hectare (2 acre) limit on the amount of exempt church land, but the amendment provides that the land used in connection with a place of public worship shall be exempt to a maximum of 0.81 hectares or 10 square metres of land for every 1 square meter of occupied building space used as a place of public worship, whichever is greater.

The Commission believes that there are reasonable limits in regard to exemption of property owned by religious organizations. The fact that a property is owned by a religious organization should not in and of itself be sufficient grounds for granting an exemption. Commercial properties owned by religious organizations, for example, are generally taxable and the Commission agrees that this should be the case.

The Commission agrees with the principle of having a limit on the amount of church-owned land which should be exempt. There is little justification for having unlimited exemption of land because this would provide a financial incentive and an opportunity for churches to obtain or retain land in excess of their requirements, to be sold at a later time realizing potentially large tax-free capital gains.

The Commission also agrees with the principle of relating the amount of exempt land to the amount of occupied building space used as a place of public worship, for two main reasons:

- Local bylaws often have landscaping and off-street parking requirements which entail an overall requirement for land in excess of the previous two acre limit.

- The previous two acre limit failed to give recognition to the requirements associated with larger churches.

With particular reference to the second point, the Commission notes that a number of churches have decided to have larger centralized facilities with larger congregations, rather than a greater number of smaller neighbourhood churches with smaller individual congregations. In most instances, the two acre provision was sufficient to exempt the lands required by the smaller neighbourhood churches, but larger centralized facilities have land requirements which are in excess of the previous statutory exemption. The Commission is of the view that the taxation system should be neutral in its effect on decisions which churches make in regard to their facilities.The fact that a church decides to have larger centralized facilities should not lead to different tax treatment. The statutory provisions that were in effect prior to the June, 1986 amendment served to financially disadvantage those churches which had opted for the larger central facility.

Some issues have arisen in connection with the definition of "place of public worship". It would appear most municipalities interpret a place of public worship to include more than the sanctuary where formal or ceremonial religious observances are held. Most appear to include ancillary office spaces, libraries, meeting rooms, storage spaces, cultural halls and gymnasia (as long as these are not used commercially, or for fund raising) and ancillary maintenance buildings used in association with the sanctuary within the definition. The Commission agrees that these types of facilities owned by religious organizations should be included within the definition of a place of public worship.

What is not so clear, however, is whether the definition of "place of public worship" should be extended to include other properties owned by religious organizations such as church schools, dormitories or homes for the aged, which may have a direct or indirect operating relationship with the operation of the place of public worship.

The Commission is of the view that the constitutional, legal, social, educational, and other issues surrounding these questions are extremely complex and warrant an indepth analysis and review. The Commission was unable to explore the matter in the depth that would have been required to deal with a matter of such significance, without jeopardizing the time and resources available to address the many other issues specifically assigned to it.

16. AGRICULTURAL IMPROVEMENTS

Under the provisions of **The Rural Municipality Act,** all buildings (other than a residence) that are located on land in excess of three acres and which are used for farming, are exempt from taxation. All buildings, regardless of use, are exempt from taxation where farming is the occupant's chief source of income. Where farming is not the occupant's chief source of income, buildings not used for agricultural purposes are exempt up to an assessed value equal to the assessed value of the land owned by the occupant and used for agricultural purposes.

Exempt agricultural improvements amount to an estimated $163.5 million of assessment, or 12.1% of total exempt assessment.

The Commission sets out the issues associated with these policies and the approach used to evaluate options for dealing with the issues, in Chapter Five of Part II of this report.

17. OTHER STATUTORY EXEMPTIONS

The Commission believes that public squares, urban parks, war memorials, and municipally owned cemeteries should all continue to be exempt for the same reasons that it recommended that other municipally owned properties be exempt.

Because of the more or less proportional distribution of streets and public reserve lands in the title of the Crown throughout urban municipalities, the Commission was unable to identify any merit in making those properties subject to taxation.

There are two other groupings of properties exempted by provincial statute that warrant separate consideration:

- Charitable/Social Organizations

  The following six types of exemptions arise out of provincial statutes:

  — agricultural societies;
  — Y.M.C.A. and Y.W.C.A.;
  — Royal Canadian Legion;
  — Army, Navy and Air Force Veterans;
  — Disabled Veterans' Association of Canada;
  — Canadian Mental Health Association.

- Private Members Acts

  There are close to 40 private members' acts which provide exemptions for various properties. Most of these acts deal with religious schools, bible camps, or bible colleges but others, for example, deal with the Boy Scouts of Canada and the Canadian Red Cross.Appendix II-6 provides a listing of these Acts. The Commission notes that a number of these Acts apply to facilities which are no longer in existence, but the legislation is still in effect.

There are two basic options in regard to these exemptions:

- The statutory exemptions could be maintained; or
- The statutory exemptions could be removed, and the decisions for tax relief left in the hands of individual municipal councils.

Those who are in favour of maintaining the current statutory exemptions advance the following arguments:

- There is minimal impact on the local tax base arising from these particular exemptions. The entire category of "other statutory exemptions" constitutes only 0.8% of the assessment base on average, and 4.3% of total exempt assessment.
- There is merit in minimizing financial uncertainty for organizations so that they can plan effectively. The removal of the statutory exemption and leaving decisions on tax status in the hands of individual municipalities would create some uncertainty and difficulties in planning and, depending on the decisions of individual municipal councils, could create financial hardships.
- Removal of the statutory exemptions would mean that individual municipal councils would have to make decisions on these matters. This could cause considerable contention on councils and in the communities.
- Although removal of the statutory exemption may be intended only as a means of placing decisions on exemptions in the hands of individual municipal councils, some may interpret the termination of the statutory exemptions as an indication that the provincial legislature believes that the exemptions do not have merit.
- The statutory exemption for the property of veterans' organizations could be regarded as a protection of a historic benefit for those to whom society has some obligations.

Those who favour discontinuing statutory exemptions for these categories of assessment and placing the decisions at the individual municipal level advance the following arguments:

- Decisions on exemptions should be determined at the municipal level because it is the municipal tax base that is being affected. Decisions on exemptions should be made at the provincial level only if there is a province-wide interest to be served by a particular type of exemption.
- Certain portions of facilities of veterans' associations (licensed beverage rooms) are in competition with the private sector and ought not to be tax exempt. Individual municipalities would be in a position to make judgments on such matters taking into account the specific local conditions and circumstances.

If it were decided that statutory exemptions should be terminated, the amending legislation would not have to become effective immediately. Instead, the amending legislation could be designed to come into effect at a certain future time (two or three years hence), to provide municipal councils and the organizations with sufficient time to consider the issues and circumstances and to develop any local bylaws the councils may believe are appropriate.

On balance, the Commission recommends that the current statutory exemptions of properties owned by charitable/social organizations, and those dealt with under the various private members' bills, be eliminated, and the decision regarding property tax relief should rest with individual municipal councils.

The Commission also recommends that the Government of Saskatchewan introduce no additional statutory exemptions and that decisions on property tax relief for any individual property or class of properties be the responsibility of municipal councils.

The Commission also recommends that if the Government of Saskatchewan does introduce additional statutory exemptions, that the Government of Saskatchewan pay grants-in-lieu of taxes to compensate the local governments for the loss in their local tax base.

18. EXEMPTIONS BY MUNICIPAL BYLAW

Properties which are exempted through municipal bylaws have an assessed value of $7.9 million, which is only 0.6% of total exempt assessment and only 0.1% of total assessment.

The Commission has concluded that local tax relief provided by municipalities should be limited to abatements, rather than exemptions. (See next section.)

19. EXEMPTIONS, ABATEMENTS AND DISTRIBUTION FORMULAS

Exemptions of assessment from taxation and abatements, compromises and refunds of taxes levied have the same effect on the person or organization whose property is affected. Whether a measure of tax relief is brought about by one or the other of these measures has a quite different impact, however, on the distribution of revenue sharing payments to municipalities and on the payment of grants to school divisions.

The bulk of rural municipal revenue sharing and school grants, and about 40% of urban municipal revenue sharing payments are based on an equalization principle. Under this principle, the larger the local tax base, other things being equal, the lower the provincial payment to the municipality. Similarly, the smaller the local tax base, the larger the payment. In other words, more monies are paid to those local governments which have less financial ability to finance their own needs.

The primary measure of the local tax base used in the computation of these payments is the non-exempt assessment. If some of the taxable assessment is made exempt, it has the effect of lowering the local tax base and bringing about a larger payment of school grants or municipal revenue sharing payments. Conversely, if an exemption is removed, it has the effect of increasing the local tax base and correspondingly reducing the equalization payments.

On the other hand, a decision to abate, compromise, or refund taxes that are levied on taxable assessment does not affect the amount of taxable assessment, and hence no change is made in the equalization payments in response to local decisions on abatements.

There are several principles and observations which the Commission wishes to make in this regard:

- **Local governments should be compensated fully by the provincial government for changes in their local tax base brought about as a result of a provincial government decision on tax exemptions.** Under current arrangements, municipalities and school divisions are compensated because of the way in which the various equalization formulas operate. School divisions are essentially fully compensated, whereas rural municipalities and urban municipalities are compensated by about 45% and 33%, respectively. What this means is that a decision of the provincial legislature to exempt certain properties from taxation has a negative net financial impact on municipalities, while school divisions essentially remain unaffected.

- **Local governments should bear the financial consequences of a local decision to provide tax relief to a particular property or class of property.** It is compatible with the principle of accountability that governments at all levels bear the consequences of their own decisions.

- Under current arrangements, local governments bear the total financial impact of a municipal decision to abate taxes, and this is as it should be. Equalization payments do not change as a result of a decision at the local level to provide an abatement of taxes.

- Under current arrangements, school divisions and municipalities receive compensation for a municipal decision to exempt assessment from taxation. This is contrary to the principles which the Commission believes should apply.

Taking into account the foregoing, **the Commission recommends that:**

- **The provincial legislature be the only body which is empowered to exempt assessment from taxation, and that the power to exempt assessment be discontinued for municipalities.** A decision of the provincial government to exempt properties from property taxation affects equalization grants paid by the provincial government and, in this sense, the provincial government bears the financial consequences of the decision.

- **Municipal governments continue to have the power to provide tax relief to individual properties or classes of properties, but that the mechanism for achieving this relief be limited to abatements, compromises, and refunds.** Because equalization grants are not affected by these forms of tax relief, local governments bear the financial consequences of a local decision. Abatements, compromises, and refunds are a more "visible" form of tax relief than exemptions, and this is also compatible with accountability.

The Commission emphasizes the foregoing recommendations will not change the ability of municipalities to relieve specific property owners from property taxation and that they would merely require that it be achieved by one mechanism and not another.

From time to time, there may be advantage in enabling a municipality to provide assurances to a property owner that they will receive relief from property taxation for more than one year. In this way, the property owner is able to make plans knowing what his tax status will be for more than one year. Urban municipalities currently have the authority to enter into an agreement with a property owner to provide an exemption from property taxation for up to five years, while rural municipalities currently do not have that power.

The Commission believes that both rural and urban municipalities should be empowered to make commitments for tax relief for up to five years but recognizes that, under current legislation, if the power to exempt properties from taxation is removed, the power to provide a property with tax relief will be limited to one year, because abatements, compromises, and refunds are done on a year-by-year basis.

The Commission recommends, therefore, that the municipal acts be amended to permit municipalities to enter into an agreement with a property owner under which they could agree to abate or compromise the taxes on a property for up to five years at a time.

The Commission recognizes that the municipality desiring to provide tax relief to a property over a period of years would still have to levy, but not collect, the taxes each year. From this standpoint, an exemption would make more sense because taxes would not have to be levied during the period of the exemption. However, for different reasons identified above, the Commission believes that the power to exempt properties from taxation should rest only with the provincial legislature.

20. LOCAL DECISION-MAKING

It has been argued by some school divisions that it is unfair for municipalities to have the sole decision-making authority with regard to locally granted tax relief. They point out that municipalities can alter the tax base of school divisions through the granting of exemptions and, in the case of urban municipalities, can abate both school and municipal taxes without the prior knowledge or concurrence of the school division. It has been suggested, therefore, that:

- School divisions be given joint decision-making authority along with municipalities for exemptions and abatements; or
- Municipalities be given the authority only to exempt property from municipal taxation, or to abate, compromise or refund only municipal taxes and that school divisions be given the authority to do the same with regard to school taxes.

The current arrangements for tax exemptions do not pose a significant difficulty for school divisions. First, most exemptions carry on from year to year, they are reasonably predictable, and school divisions are able to plan their financial operations accordingly. Secondly, the foundation grant formula for school divisions has the effect of compensating school divisions for revenue losses arising from a reduction in the local tax base caused by an exemption.

Current arrangements for tax abatements, compromises, or refunds do, however, pose a difficulty for school divisions.School divisions establish their budgets and mill rates on the basis of the taxable assessment, anticipating the corresponding yield of revenue from the tax base, but can have their revenues reduced by abatement, compromises, or refunds of taxes at any time during the year without prior knowledge or input into the decision. The school grants formula does not compensate school divisions for losses in revenue arising from these forms of tax relief.

Notwithstanding the difficulties that the current arrangements pose for school divisions, **the Commission recommends that municipalities continue to have the sole responsibility for making decisions on abatements, compromises, or refunds of taxes.** The reasons for this conclusions are:

- Joint decision-making for abatements would simply be administratively too cumbersome.
- Decisions on abatements, compromises, and refunds of taxes are designed to relieve financial hardship, or to promote investment, etc.. The effectiveness of these forms of tax relief would be limited if school divisions or other local authorities were in a position to make decisions which were opposite to those made by the municipality.

The Commission also recommends that the municipal acts be amended to ensure that school divisions are advised by March1 each year of any abatements which the municipality plans to make or is considering, so that school divisions can take this into account in their budgeting. However, municipalities should retain the authority to grant an abatement, compromise, or refund at any time of the year, because municipalities need to be in a position to deal with such matters promptly, if they arise through the year.

Rural municipalities must currently obtain the approval of the Minister of Rural Development for all compromises and abatements, and the approval of the school division in regard to school taxes. Urban municipalities, on the other hand, are able to make such decisions on their own authority. **The Commission recommends that The Rural Municipality Act, be amended to provide rural municipalities with the same authority as urban municipalities in regard to compromises, abatements, and refunds.**

CHAPTER TWO

S.P.C. GRANTS AND SURCHARGES

1. BACKGROUND

As a provincial Crown corporation, the property of the Saskatchewan Power Corporation (S.P.C.) would normally be considered tax exempt. If S.P.C. were like the other provincial Crown corporations, it would pay a grant-in-lieu of taxes equivalent to full municipal, school, and other taxes based on the assessed value of its properties. However, the history of the Saskatchewan Power Corporation, and the evolution of the provincial electrical and natural gas systems have produced, instead, a complicated system of surcharges, grants, and other payments.

A. Historical Development

As S.P.C. worked toward the development of an integrated, province-wide electrical system, it needed to acquire profitable urban electrical systems to complement and help finance its other operations which were initially less profitable. As it purchased or absorbed municipal and private electrical systems, S.P.C. found it necessary to negotiate agreements which compensated the municipalities for the loss of operating profits of the former municipally owned systems or the former taxes and franchise fees paid by former privately owned utilities. This compensation was in the form of a fixed percentage of electric sales in the municipality. The Corporation later offered these payments to all urban municipalities, if the councils requested the payment.

Electrical Surcharge

Under **The Power Corporation Act,** S.P.C. collects and remits surcharges as follows:

- 10% is added to the electricity bills of customers in cities at the request of council; and
- 5% is added to the electricity bills of customers in towns and villages at the request of council.

All cities, and all but 83 towns, villages, and resort villages have requested and receive the municipal surcharges on electricity. In 1985, the municipal surcharges collected on behalf of urban municipalities totalled $16.5 million.[1] These payments have increased at a compound average annual rate of 16.4% since 1973.[2]

Electrical Grant

In 1953, S.P.C. and the City of Prince Albert reached an agreement that the City would not exercise its right to acquire the electrical utility operation which had been purchased earlier by S.P.C.. In exchange for the City not providing electrical service, the Corporation agreed to pay the City an annual grant based on 5% of the value of electric sales in the City. The Corporation entered into several agreements with other cities before the electrical grant was later extended to other cities as a matter of S.P.C. policy.

Natural Gas Grants

In 1953, S.P.C. began to supply natural gas services. The City of Saskatoon, which had retained its own electrical distribution system when it sold its electric power plant in 1929, also wished to operate its own gas distribution system. In 1954, the City of Saskatoon agreed to permit S.P.C. to distribute natural gas in Saskatoon and the City received, as compensation, a grant equivalent to 5% of the value of natural gas sales. The Corporation entered into agreements with other cities before the 5% gas grant was extended to all cities, as a matter of S.P.C. policy.

In 1957, S.P.C. introduced the payment of gas grants to towns which were profitable to serve with natural gas. These grants rose from 1% of gas revenues in the first year by 1 percentage point per year to a maximum of 5%.

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[1] See Appendix II-7 for a table of S.P.C. payments.

[2] See Appendix II-8.

In 1964, gas service was being provided to towns which the Corporation considered to be uneconomic to service. These town councils were given the option of paying the standard rate for gas and receiving a grant of only 3% of gas revenue or paying a premium rate for gas and receiving a grant of 5% of gas revenue. Most chose the standard rate and a 3% gas grant.

An additional 40 towns now served by natural gas, which are considered by the Corporation to be unprofitable to serve, were not offered a gas grant by S.P.C..

The electric and gas grants have increased at compound average annual rates of 16.9% and 18.3%, respectively, since 1973.[3]

In summary, S.P.C. pays grants as follows:

- 5% of electric revenues to each city served by S.P.C. with specified customer exclusions; and
- 5% of gas revenue to all cities and 85 towns and 3% of gas revenue to 13 towns, served by S.P.C., with some customer exclusions.

In 1985, these electric and gas grants to urban municipalities totalled $16.3 million.[4]

S.P.C. pays grants-in-lieu of full taxes on natural gas wells, natural gas pipelines formerly owned and operated by private companies, and houses owned by S.P.C.. In 1985, these payments totalled $144,000.

S.P.C. pays grants-in-lieu of local improvements taxes, and also pays for disturbances or disruptions caused by its major construction projects. In 1985, the Corporation paid $54,000 for local improvements, and $1,021,000 for disruptions caused by major project developments.

B Other Provinces

There is a wide variety of arrangements for the assessment and taxation of private and public utilities across Canada.[5]

Some privately owned utilities pay full property and business taxes, while other privately owned utilities pay a combination of full property and business taxes and a distribution tax based on a percentage of revenue.

Some publicly owned utilities pay only service fees for municipal services actually provided. On the other hand, some public utilities pay grants-in-lieu of taxes on some aspects of its property, while others make payments based on a percentage of sales within a jurisdiction.

2. CONCERNS EXPRESSED ABOUT THE CURRENT SYSTEM

A. Municipal Concerns

S.P.C. is different from other Crown corporations in that it does not pay grants-in-lieu of taxes on most of its property or business activity. This anomaly has raised concerns and questions about why S.P.C. should be treated any differently than SaskTel or other Crown corporations regarding the assessment of its property and grants-in-lieu of taxes to local governments.

The fact that the municipal surcharge and gas and electric grants are offered only to urban municipalities effectively denies rural municipalities access to these sources of revenues.

Electric and gas grants are currently paid only to some urban centres. These grants are costs to S.P.C. and, as such, they are charged against the whole S.P.C. system and all customers pay for these expenditures.However, only some urban municipalities receive these payments and, therefore, there is a redistribution of income from residents and businesses in other urban centres and rural municipalities.

The 3% or 5% gas grants paid to towns served by S.P.C. have not been extended to recent additions to the natural gas distribution system.

B. Corporate Concerns

The gas and electric grants represent a cost to the Corporation, and these costs have escalated due to higher prices for natural gas and electricity and increased consumption.

Many S.P.C. customers are unaware of the components of their power bills and, therefore, attribute all of their concerns about the cost of electricity or natural gas to S.P.C. when, in fact, a sizeable portion of the cost is due to the municipal surcharges and grants.

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[3] See Appendix II-8.
[4] See Appendix II-7.
[5] See Appendix II-9 for a more complete review of practices across Canada.

Because councils only need to initiate a one-time request to the Corporation to collect the surcharge on their behalf, questions have been raised concerning the accountability of municipal councils for this local tax on their residents and businesses.

3. OBSERVATIONS

A. General

The current system of S.P.C. payments has evolved along with and as part of the development of a provincial integrated electric and gas utility. Much of the rationale and basis for the current system reflects the sometimes unique circumstances under which S.P.C.'s services have been developed.

Some of S.P.C.'s payments to municipalities are embodied in agreements between the Corporation and individual municipalities. In the case of the acquisition of the power plant which formerly belonged to the City of Regina, provincial legislation confirmed the arrangement. Changes to the overall system of payments would involve cancellation or amendment of agreements and, in all likelihood, this could be accomplished only by a unilateral approach.

Most of S.P.C.'s payments have been extended to municipalities as a matter of S.P.C. policy, rather than on the basis of legal commitments to pay.

B. Municipal Surcharge

The decision of whether or not to impose a municipal surcharge on electric bills rests with individual urban municipalities. S.P.C. simply acts as a collection agent for the municipality.

The surcharge is, in effect, a municipal sales tax on electricity consumed within the municipality. The tax is paid directly by all consumers of electricity within the boundary of the municipality.

In deciding whether or not to impose the surcharge, an urban municipality cannot specify the percentage to be applied to the value of electricity sales. If the municipality decides to impose the surcharge, it must be at either 5% in the case of towns and villages, or 10% in the case of cities.

Customers in urban municipalities which have requested S.P.C. to impose the surcharge on behalf of the municipality, pay higher electric bills compared to customers in municipalities which have not imposed the surcharge.

The surcharge is not a cost to S.P.C., since the Corporation simply acts as a collection agent for the municipality, and the amount is collected over and above the charge which S.P.C. would otherwise make.

The surcharge represents a major source of revenue for urban municipalities. The surcharge represents approximately 8.6% of municipal tax levies for cities and 9.1% for villages and towns.[6] Another way of expressing the importance of the surcharge is the number of mills which would be required to compensate for its loss. In order to compensate for the surcharge, the property taxes would have to be raised by 8.5 mills in cities and by 7.7 mills in villages and towns.[7]

The surcharge is not paid to school divisions, nor are the revenues received by the municipality shared with the school division. This reflects the fact that electric utilities were owned by municipalities, and the subsequent payments can be described as compensation for those facilities.

C. Gas and Electric Grants

The gas and electric grants are costs to S.P.C. and as such, they are charged against the whole S.P.C. system. Although there are differences in the percentage amount of gas grants paid to municipalities (5%, 3%, 0%), these differences are not reflected in the customer rates charged in those municipalities.

Like the electrical surcharge, the gas and electric grants provide a major source of revenue for urban municipalities. The grants amount to the equivalent of 10.0% of municipal tax levies for cities, and 4.5% for villages and towns.[8] They are the equivalent of 9.9 mills on the local tax base for cities and 3.8 mills for villages and towns.[9]

The gas and electric grants are not paid to school divisions, nor are they shared with school divisions.Again, this reflects the historical development of these payments as a financial inducement to municipalities not to become involved in municipal gas and electric utilities. To the extent that the Corporation regards these payments as a grant-in-lieu of taxes, an argument can be made for sharing these payments with school divisions in the same way that other grants-in-lieu of taxes are shared with school divisions. However, there are more fundamental questions regarding the rationale for such payments, the basis for determining the size of the payments, and how the payments should be financed.

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[6] See Appendix II-10. The surcharge represents 11.5% of municipal tax levies in the 9 cities served primarily by S.P.C.. Saskatoon and Swift Current are served largely by municipal utilities, while Lloydminster is served largely by an Alberta-based private utility.

[7] See Appendix II-11.

[8] See Appendix II-10.

[9] See Appendix II-11.

The gas and electric grants are recognized as sources of revenue in the calculation of the foundation portion of urban revenue sharing payments. A municipality which receives gas and/or electric grants is regarded as having a greater ability to finance local services than a comparably sized municipality which does not receive such grants. As a result, a municipality receiving such grants receives a smaller equalization payment than the other municipality. Any increase in gas or electric grants would tend to redistribute revenue sharing funds to non-recipient urban municipalities.[10] Any decrease in the gas and/or electric grants would tend to redistribute revenue sharing funds from other municipalities to the municipalities which currently receive the grants.

D. Commercial/Industrial Property

Unlike most other Crown corporations, S.P.C. does not pay grants-in-lieu of taxes on its commercial and industrial property.

The Commission has estimated that S.P.C.'s commercial property such as its head office, maintenance and storage property and payment offices has an assessment of approximately $21.3 million as of 1985 (based on the new or 1976 assessment values). These commercial properties are widely distributed across the Province, although there is a concentration of properties in Regina since the head office of the Corporation is located in that city.

If full grants-in-lieu of taxes were paid on these properties, it would amount to approximately $2.1 million annually.[11]

S.P.C.'s power plants have a combined assessed value of approximately $25.8 million under the new assessment values. This represents a significant amount of assessment which, if grants-in-lieu of taxes were payable, would result in extremely large revenues to the municipality in which the plants are located. If the plants were taxable, it would be possible for the municipalities in which the plants were located to reduce their mill rates to such an extent that almost all of the local property taxes would be effectively paid by S.P.C.

4. CONCLUSIONS/RECOMMENDATIONS

The Commission recommends that the current system of municipal surcharges and electric and natural gas grants be discontinued and, in their place, all municipalities should be allowed to levy a municipal sales tax on electric and natural gas sales within their boundaries.

The Commission also recommends:

- **That municipalities should be allowed to set the percentage sales tax up to a maximum figure of 15% on electric sales and 5% on natural gas sales to be specified in legislation.**
- **That each municipal council which levies the sales tax should be required to pass a bylaw each year requesting S.P.C. to collect and remit the specified percentage sales taxes on its behalf.**

A. Municipal Surcharge

These recommendations recognize the growing importance of the municipal surcharge as a source of revenue for municipalities. Because of its magnitude, it is important that there be fairness in the access of different types of municipalities to this revenue source.

The recommendations also recognize that the surcharge is, in reality, a local sales tax. Not only should there be fairness in terms of access of different types of municipalities to the tax base but, because it is a form of local taxation, individual municipalities should have the right to vary the rate of taxation (the surcharge percentage) to suit their local circumstances. An individual council should be able to set any rate up to the maximum specified in the legislation or to decide not to levy it at all.

The Commission has recommended that a maximum rate be set out in legislation in recognition of the fact that S.P.C. is responsible for setting electric rates and that unlimited municipal taxing authority could erode this responsibility to the detriment of consumers and the Corporation. The Commission believes that the current maximum allowable surcharge has proven to be acceptable and, therefore, flexibility to set rates within that limit should not pose a problem.

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[10] The operation of the formulas under which revenue sharing payments are allocated among municipalities is dealt with in detail in Part III of this report.

[11] Based on $21.3 million assessment times an estimated averaged total mill rate of 100 mills, (based on the "new" assessments based on the 1976 manual).

Under current arrangements, municipal councils are not perceived to be held accountable for the municipal surcharge or sales tax on electricity. Councils need only to request the surcharge, and it is applied in each subsequent year. The Commission believes strongly that municipal governments should be held accountable for the taxes they levy and that there should be no hidden taxes. By requiring municipalities to pass a bylaw each year requesting S.P.C. to collect and remit a certain percentage surcharge on electricity sold within the municipality, there would be an opportunity each year to discuss and debate the tax, and the electorate would be in a better position to hold their representative accountable for their decisions.

Two particular issues should be addressed before the proposed new arrangements are introduced:

- Some present industries are very heavy users of electrical energy. It is possible that a sudden imposition of an electrical charge could seriously affect their competitive position and overall viability. A means of protecting an industry in such a circumstance should be devised before the current arrangements are changed.
- Some municipalities have one or two major users of electrical energy within their boundaries.In a small municipality, imposition of an electrical surcharge for these industries could conceivably raise so much revenue that there would be little or no need for a property tax levy. One possible way of dealing with a potential major windfall would be an intermunicipal tax sharing arrangement.[12]

B. Electric and Gas Grants

The current system of electric and gas grants has evolved over the decades during which S.P.C. has endeavoured to develop an integrated province-wide utility. Few, if any, people would today deny that having a single province-wide corporation is the most economical and efficient means to develop and provide the fundamental services of gas and electricity. It has been through this mechanism, and the initial cross subsidization of different categories of users, that it has been possible to provide the level and quality of service that is now available throughout rural areas and in small towns and villages.

The provision of electrical services, in particular, is a very large undertaking. Additional generating stations cost many millions of dollars and, under the current arrangements, consumers of electrical energy everywhere in the province are responsible for the long-term financing of the additional generating capacity through the rates they pay.

The concept of a single province-wide utility was not as well accepted in the past. The Saskatchewan Power Corporation was in the position of having to make long-term financial commitments in the form of grants and surcharges for certain cities in order to achieve the position of sole provider of these services.

The Commission believes it is time that the gas and electric grants be changed to reflect the reality of the current province-wide nature of the gas and electric utility. The Commission recommends that the gas and electric grants be discontinued and restructured as municipal sales taxes on electric and natural gas sales within the municipality for four main reasons:

- As noted earlier, the electric and gas grants are a cost to the Corporation and as such, they are reflected in the rates charged to all electric and gas customers, even though the grants are paid only to some urban municipalities. In effect, this redistributes income from rural and some urban customers to customers in those centres which receive the grants. The Commission believes this redistribution should be eliminated. By restructuring the grants as a municipal sales tax on electricity and natural gas in the same way as the municipal surcharge on electricity, the revenues received by a municipality would come from its own residents, not from consumers of electricity and natural gas elsewhere in the province.

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[12] Commercial/industrial tax sharing is dealt with in the next chapter of this report.

- It retains a major revenue source for municipalities that could not be maintained if the grants were simply discontinued.Municipalities have come to depend upon these revenues and to discontinue the grants would cause substantial increases in municipal property taxes or reduced municipal services or both. Retaining access to this revenue source, even though it is in a different form, would ensure that there was no necessity for a disruption of municipal revenues.

- It will treat all municipalities more fairly.All municipalities would have access to the revenue source, not just those who happened to receive the revenues as a by-product of the evolution of a provincial utility.

- By requiring an annual bylaw to set the rate and request S.P.C. to collect and remit the revenue, accountability to the electorate for this form of taxation will be promoted.

For the same reason that there should be a statutory limit on the amount of electrical surcharge that a municipality may levy, there should also be a statutory limit on this particular sales tax. The present upper limit of 5% would seem to be an appropriate rate of sales tax for natural gas. The current 10% limit in regard to the electrical surcharge and the 5% maximum in regard to electrical grants could be combined to provide an overall upper limit of 15% in regard to the sales tax for electricity.

It should be emphasized that the mere availability of the electrical and gas sales tax does not mean that municipalities would be required to levy them. Some municipalities may not consider it to be as equitable a means of raising revenues as other means and may, for this or other reasons, decide not to levy it. Other municipalities may wish to use the revenue source, but to set rates below the statutory maximum.

C. Other Local Governments

The Commission recommends that municipalities be the only local governments which have access to the proposed local natural gas and electrical sales tax bases.

The Commission reached its conclusions on changes to the electrical surcharges and the electrical and natural gas grants not because it believed that natural gas and electricity were ideal tax bases but, rather, to improve current circumstances while, at the same time, considering the reality of the current reliance on these forms of revenue by particular municipalities.

To enable other local governments to tax the natural gas and electrical sales tax bases over and above the proposed maximum statutory rates for municipalities could lead to an excessive use of these tax bases. On the other hand, to provide other local governments with a share of the proposed maximum statutory rates would serve to reduce and disrupt the revenues that many municipalities now heavily rely upon.

D. Grants-in-Lieu of Taxes on Commercial Property

The Commission recommends that S.P.C. pay full grants-in-lieu of taxes on all of its commercial property in Saskatchewan.

The Commission believes that S.P.C.'s commercial property is very similar to the commercial property of other Crown corporations and that it should pay full grants-in-lieu of taxes on such property. The Commission also believes that to be consistent with the practices of other Crown corporations, the grants-in-lieu of taxes should be paid to all local governments which make levies on the local property tax base.

In the past, requests for S.P.C. to pay grants-in-lieu of taxes on its property have been complicated by questions or issues surrounding the valuation, assessment, and taxation of the Corporation's power plants and transmission lines. The Commission believes that the commercial property can be readily identified and separated from these latter types of facilities.

Payment of grants-in-lieu of taxes on S.P.C.'s commercial property would resolve an obvious inconsistency in the treatment of Crown corporations for property tax purposes. It would also address the concerns raised by local governments that Crown-owned property should be treated no differently than privately owned property.

Payment of grants-in-lieu of taxes on S.P.C. commercial property would add $21.3 million (under the new assessment values) to the property tax base of local governments. As noted in the previous chapter, a broadening of the local tax base serves to strengthen local governments.

Under current assessments and tax rates, approximately $2.1 million in additional payments would be made to local governments if full grants-in-lieu of taxes were paid on S.P.C. commercial property. The benefits would not accrue only to the local governments which have such property within their boundaries. Because of the equalization principles in the formulas used to distribute municipal revenue sharing payments and school grants, all local governments in receipt of equalization-based monies will benefit either directly or indirectly from the grants-in-lieu of taxes.

E. Industrial Property, Transmission Lines, Etc.

The Commission recommends continuation of the present practice whereby S.P.C. does not pay normal grants-in-lieu of taxes on S.P.C.'s power plants, transmission and distribution lines, gas caverns and compressors, and other industrial property.

In regard to electrical generating plants, the Commission notes that the assessments are very large (up to approximately $10 million), and that the grants-in-lieu of taxes would represent a major windfall for the few rural municipalities in which they are located. Although the existence of a generating facility in a municipality normally creates the need for some additional municipal services, particularly transportation, the revenues obtained from the payment of full grants-in-lieu of taxes would be far in excess of the costs of such additional services. The municipalities in which the plants are located would be in a position to reduce their mill rates to very low levels and rely heavily on the grants-in-lieu of taxes from one property owner for their revenues. The Commission sees little merit in creating windfalls of this nature, particularly since the consumers of electricity throughout Saskatchewan would bear the cost of the grants-in-lieu of taxes through increases in their electrical rates.

The Commission believes that there are options additional to the "extreme" options of either paying of full grants-in-lieu of taxes or making no payments in regard to the plants. These options will be discussed in the next chapter which deals with commercial/industrial tax sharing.

There would be some merit in paying grants-in-lieu of taxes on the electrical and gas distribution systems. It would add over $133 million (based on the new assessment values) to the local property base of local governments and it would tend to strengthen local governments for reasons identified in the previous chapter. The assessment is broadly spread throughout Saskatchewan so there would be no major windfall for individual local governments. There are difficulties in placing valuations on such property, but the Commission believes they could be overcome.

On balance, however, the Commission recommends against the payment of grants-in-lieu of taxes on the distribution facilities because of the additional financial burdens it would place on consumers of electrical and natural gas and the fact that it would be out of step with practice in most parts of Canada.

F. Existing Agreements on Grants and Surcharges

As noted earlier, there is a two-fold basis for the payments made to municipalities by S.P.C.:

- formal agreements between S.P.C. and individual municipalities; and
- policy decisions by S.P.C. to provide benefits to certain categories of municipalities.

To bring about the changes in grants and surcharges recommended by the Commission, agreements and policies would have to be changed. Changing policies is not difficult, but changing the terms of agreement can be difficult because it takes two parties to agree. If new agreements cannot be negotiated, it would be necessary to change them through legislation. It would be regrettable if the changes could not be made through amendments to agreements. However, the Commission believes that the removal of inequities in the current arrangements warrants such action if it proves to be necessary.

G. Implications for Revenue Sharing

Changes to the revenue sharing formulas would have to be made if the Commission's recommendations on the disposition of the municipal surcharge on electricity and the electric and gas grants are adopted.

The urban revenue sharing formua is cited for illustrative purposes. The current formula has been designed so that the level of local taxation decided upon by a municipality has no bearing on the amount of foundation grant to which the municipality is entitled.

The gas and electric grants are considered in the calculation of the foundation grant on the basis of whatever is received from S.P.C.. If each municipality were to have the authority to set its own rate of sales tax on electricity and gas consumption, there will be corresponding variations in the amount of revenue collected. If the formula is unchanged, a municipality would be able to increase its revenue sharing foundation grant by reducing its sales tax rate.[13]

Accordingly, the Commission recommends that a standard rate of taxation, based on the weighted average sales tax rate, should be used in the revenue sharing foundation formula to determine the recognized local sales tax revenue from electricity and natural gas sales.

A similar issue would arise in regard to the equalization formula under revenue sharing for rural municipalities.

The Commission recommends that the necessary changes to the revenue sharing formulas be co-ordinated with the implementation of the Commission's recommendations on the S.P.C. grants and surcharges.

H. Other Options

In reviewing the current system of S.P.C. grants and surcharges, the Commission discussed several options for addressing the various municipal and corporate concerns about the current system of S.P.C. payments.

One option would entail the elimination of the gas and electric grants in return for S.P.C. paying grants-in-lieu of taxes on its commercial property.This option would meet some major concerns of S.P.C. as a corporation, but it was not considered to be a practical or desirable approach. Gas and electric grants paid by S.P.C. amount to about $16 million, whereas the payment of grants-in-lieu of taxes on the commercial property of S.P.C. would yield only about $2.1 million.[14] Urban municipalities have come to rely rather heavily on the grants, and a reduction of the magnitude would pose a hardship for many of them.

Another option would be to phase out the grants over a period of years. While this would reduce the short run disruption and hardship, the Commission believed that the elimination of the grants, either abruptly or over a period of years, would cause financial difficulties for urban municipalities and generate a great deal of bitter debate.

In short, the Commission believes that the option of retaining the payments, but changing them to municipally determined local sales taxes with local determination of the rates of such taxes, best addresses the issues and concerns involved.

5. SUMMARY

The current system of S.P.C. payments (a maximum 10% municipal surcharge on electricity sales and a maximum 5% electric and natural gas grants based on the value of electricity and natural gas sales) has evolved along with the development of the provincial utility.

All municipalities do not have access to these sources of revenue. In the case of the electric and natural gas grants, the cost of the grants is borne by all S.P.C. customers, but the grants are paid only to some municipalities and not to others.

The municipal surcharge on electricity represents a major source of revenue for urban municipalities. However, few people are aware of the surcharge or that it is, in effect, a local sales tax. The Commission believes that municipal councils should be held accountable for the surcharge and that there should be an opportunity or a forum to debate the merits of the levy.

The Commission recommends discontinuing the present municipal surcharge and electric and gas grants in favour of permitting all municipalities to levy a local sales tax on electricity and natural gas sales within their municipality. The Commission also recommends that municipal councils be given the flexibility to set the local sales tax rate up to the current maximum rate of 15% on electricity and 5% on natural gas. It is also recommended that municipal accountability for the tax should be improved by requiring the councils to pass annual bylaws requesting S.P.C. to collect and remit the specified tax rate on their behalf.

These recommendations are intended to improve the current arrangements by making the tax base accessible to all municipalities, increasing municipal flexibility to set their own tax rates within a statutory limit, increasing local accountability for the levy, and by eliminating the redistributive effects of the current grants.

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[13] The reasons why this takes place under the formula are not described at this point in the report. In Part III of the report, the operation of both the urban and rural distribution formulas under revenue sharing are described in detail.

[14] If school divisions received roughly half of these grants-in-lieu of taxes as they do with other grants-in-lieu of taxes, the yield to municipalities from this source would only be about $1 million.

In regard to grants-in-lieu of taxes on commercial property, the Commission recommends that S.P.C. pay full grants-in-lieu of taxes on all of its commercial property, the same as other Crown corporations.

The issue of payments on industrial property, power plants, etc., is dealt with in Chapter Three, Commercial/Industrial Tax Sharing.

CHAPTER THREE

COMMERCIAL/ INDUSTRIAL TAX SHARING

1. INTRODUCTION

Commercial/industrial tax sharing is an arrangement under which the proceeds of the property taxation on a relatively large commercial or industrial establishment accrue not solely to the municipality in which the establishment is located but, instead, are allocated to a larger number of municipalities. There are numerous possible arrangements and principles pertaining to how the tax rate for the establishment is determined, and how the proceeds are allocated outside the "host" municipality.

Much of this chapter will deal with the tax sharing arrangements for potash mines, although attention will be given to other potential areas where sharing arrangements could be implemented.

2. REASONS FOR COMMERCIAL/ INDUSTRIAL TAX SHARING

The three most common reasons for sharing the property tax revenues from a commercial or industrial establishment are:

A. Service Costs

The location of a commercial or industrial establishment in one municipality may create the need for services in neighbouring municipalities, and the shared revenues are intended to be used to assist in the financing of those services.

For example, a potash mine may be located in rural municipality "A". Rural municipality "B" might be required to build and maintain roads that are required for the transportation of products from the mine and for the transportation of supplies to the mine. Rural municipality "C" may be required to build and maintain roads for the workers in the mine to travel to and from work. Urban municipality "D" may be required to develop an infrastructure of sewer and water facilities, streets and sidewalks, and recreation facilities to accommodate mine workers who live in the community. Depending on the location of the mine, other municipalities may incur greater costs than the municipality in which the mine is actually located.

In the absence of commercial/industrial tax sharing, municipality "A" would receive all of the property tax revenues from the potash mine. Because of the existence of the potash mine, municipalities "B", "C", and "D" would incur additional expenditures, but they would get no property tax revenues from the mine. In other words, the other taxpayers in municipalities "B", "C", and "D" would have to bear the additional costs of the additional services incurred as a result of the operation of the mine.

If there is a system of sharing of the revenues from the potash mine, then the municipalities surrounding the one in which the mine is located are able to share in the revenues and have a broadened revenue base from which to finance the cost of municipal services.

B. Equalization

The sharing of property tax revenues from a commercial or industrial establishment may be intended to enable municipalities to have greater equality in local tax rates and levels of services.

The location of a particular industrial or commercial establishment within a municipality may serve as a major financial windfall for that municipality. The property tax revenues derived from the establishment may greatly exceed the cost of any additional municipal services attributable to the establishment.Consequently, the municipality in question may be able to finance a much higher level of services than its neighbouring municipality or have a much lower mill rate, or both.

Under a commercial/industrial tax sharing arrangement, a portion of the property tax from the establishment is shared with other municipalities, thus permitting greater equality in levels of services and local mill rates.

C. Fair Tax Levels

As noted above, a municipality with a large commercial/industrial establishment may be in a position to finance all of its services with a relatively low mill rate, particularly if the assessment of the establishment represents a high proportion of the total assessment of the municipality. As a consequence of a low municipal mill rate, the commercial/industrial establishment would obtain a windfall benefit.

Under a commercial/industrial tax sharing arrangement, depending upon how the mill rate to be applied to the establishment is determined, there can be an assurance that the establishment bears what is deemed to be a fair and appropriate tax rate.

Tax sharing can also serve to reduce the amount of tax concessions that might otherwise be used in intermunicipal competition for attracting commercial/industrial establishments, and could promote more rational economic development and planning decisions.

3. MUNICIPAL TAX SHARING ON POTASH MINES

A. Potash Mine Assessment

There are nine rural municipalities in which potash mines are located. In those rural municipalities, the assessment from the potash mines averages 59% of the total assessment of the municipalities. In 5 of the municipalities, the potash mines and agricultural assessment account for virtually all of the assessment. For those particular municipalities, the mine assessment averages 75% of the total. In one municipality, potash mine assessment amounts to 81% of the total assessment of the municipality.[1]

It is apparent that in the absence of a tax sharing arrangement, there would be large windfall revenues to these few municipalities. Most of the municipalities with mines would be able to levy relatively low mill rates, and the mines would bear relatively low rates of property taxation in relation to other types of property in the province.

B. Potash Tax Sharing Arrangements

1) Potash Tax Sharing Board

The sharing of property taxes on potash mines began in 1969, under the provisions of **The Municipality Tax Sharing (Potash) Act** passed by the Legislative Assembly in 1968. The Act sets out certain principles governing the tax sharing arrangement and provides for the establishment of a "Municipal Potash Tax Sharing Administration Board" to administer the arrangements.

2) Eligiblity for Tax Sharing

All urban and rural municipalities within an "area of influence" of a potash mine are eligible for sharing the property tax revenues from the potash mine. An area of influence is deemed to be the area encompassed by a circle with a radius of 20 miles, with its centre being the mine head.

Twenty miles was deemed to be the area within which municipalities could be expected to be influenced by the mine in terms of required municipal services, including rural road construction and maintenance and urban municipal infrastructure arising from the location of mine employees in those centres. Accordingly, municipalities with territory within this same radius were deemed to be eligible for a share of the property tax revenues from the potash mines to assist them with the costs of providing that infrastructure.

3) Mill Rate Applicable to the Mines

The municipal mill rate applicable to the potash mine is not the mill rate that applies to all other property in the municipality in which the mine is located, but a mill rate established by the Board. The Board arrives at the mill rate to be levied on the mines by taking an average of the municipal mill rates levied by the rural municipalities within a 20 mile radius of the mine in the immediately preceding year.[2]

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[1] See Appendix II-12 for a listing of individual municipalities.

The rural municipality in which the potash mine is located applies the mill rate set by the Board to the potash mine, and the proceeds are remitted to the Board.

Union hospital districts and school divisions do not participate in the potash tax sharing arrangements. Accordingly, the general mill rates struck by school division and union hospital districts apply to the potash mines in the same way as other properties within those jurisdictions.

4) Rural/Urban Allocation

Within each "area of influence", urban municipalities are allocated 10% of the proceeds and the remaining 90% is allocated to rural municipalities. Within the respective rural and urban allocations, the proceeds are divided among individual municipalities on the basis of two different point systems.

5) Urban Allocation

Each urban municipality within the 20 mile area of influence is assigned points based on the population of the municipality and the location within the area of influence.[3] If the municipality is within a 10 mile radius of the mine, it receives 4 times as many points as a municipality of the same population that is between a 10 and 20 mile radius. This reflects the theory that, in terms of impact on the expenditure requirements, the municipalities closest to the mines are affected by the mine more than the municipalities that are a greater distance from the mine.

The points are thus determined for each individual urban municipality and are totalled for all eligible municipalities within the "area of influence". Each urban municipality receives a share of the available potash tax sharing monies in proportion to its share of the total points.

6) Rural Allocation

Each rural municipality within the respective areas of influence is given a number of "basic" points. It receives 4 basic points for each square mile of territory of the municipality which is within a 10 mile radius of a mine head and one basic point for each square mile of territory between a 10 and 20 mile radius.

These basic points are then adjusted to take into account the mill rate in the municipality in the previous year. The higher the mill rate in relation to the cumulative average mill rate in the municipality since 1968, the higher the number of adjusted points assigned to the municipality. The adjusted points are summed for all rural municipalities within the area of influence, and each municipality receives a share of the potash tax sharing monies proportional to its share of the total adjusted points.

C. Observations

The Commission has two major observations in regard to the potash tax sharing arrangements.

1) Breadth of Distribution

In 1984, a total of $4.1 million in property taxation from potash mines was raised from the 9 different rural municipalities in which mines were located. The proceeds were distributed among 41 rural municipalities and 46 urban municipalities.

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[2] It is actually an average which is weighted in accordance with the proportion of territory which a particular rural municipality has within a 20 mile radius of the mine head. The mill rate for the preceding year in each rural municipality is multiplied by the number of square miles of territory it has within a 20 mile radius of the mine head. The sum of the resulting products is divided by the total square miles of territory within the 20 mile radius to yield a weighted average mill rate within that area. Where there is an overlapping of areas within the 20 mile radius arising from the proximity of one mine head in relation to the other, each area is counted only once, and the total area in which the overlapping takes place is considered one unit for the purpose of arriving at the mill rate to be applied to all the mines in that area. The overlapping areas are also treated as one unit for the purpose of calculating the distribution of the monies to the eligible municipalities. There are three such units: Pense, Esterhazy, and Saskatoon-Lanigan.

[3] The point system is as follows:

First 1,000 population or portion thereof - 1 point per person.

Next 1,500 population or portion thereof - l/2 point per person.

Next 1,500 population or portion thereof - minus 1/2 point per person.

Next 1,000 population or portion thereof - minus 1 point per person.

Urban municipalities with a population of 5,000 or more have a net of zero points and, therefore, do not receive potash tax sharing.

Slightly more than $2.3 million or 56% was returned to the 9 municipalities in which the mines were located and the balance (less approximately $8,000 allocated for administration costs of the board) was allocated to the municipalities in the different "areas of influence".[4]

A number of rural municipalities that would have received equalization grants in the absence of the potash tax sharing arrangements, either receive less equalization or no equalization grant at all, as a result of being in receipt of potash tax sharing. This means that more in equalization monies were available to other municipalities. In this sense, it could be argued that the benefits of the potash sharing arrangements are enjoyed not only by the 41 rural municipalities in direct receipt of potash tax sharing, but also by all of the approximately 250 rural municipalities that are in receipt of equalization grants. A similar, but smaller general impact of this nature also exists for urban municipalities in receipt of equalization grants under urban revenue sharing.

2) Encouragement for Higher Mill Rates

The mill rate set by an individual rural municipality within an "area of influence" has an impact on the amount of money received under the potash tax sharing arrangements in two different ways:

- It affects the size of the pool of funds available for sharing. The mill rate applied to the potash mine(s) in the area is a weighted average of the previous year's mill rate of the rural municipalities within the area of influence. The mill rate of an individual municipality affects the average.
- It affects that muncipality's share of the pool, whatever the size the pool may be. The mill rate of a municipality affects the number of points it receives, and this in turn affects that municipality's share of the pool. The higher the mill rate of a municipality, the higher its share and the lower the share of the other municipalities.

Thus, there is a two-fold encouragement for a municipality to set a relatively high mill rate, or at least to set a mill rate which is higher than what might otherwise be. The higher the mill rate, the larger the share of the pool that is distributed to the municipality.

A municipality may feel that it could provide the level of services required by its taxpayers with a lower mill rate, but would be financially discouraged from doing so because it would lower the level of the tax sharing pool, and it would lower that municipality's share of the reduced pool - a double impact.

The following facts tend to support the argument that municipalities receiving substantial amounts of money from potash tax mines are encouraged or induced into setting higher mill rates:

- Taking all 299 rural municipalities as a group, their actual expenditures are very close to the expenditures which are used in the equalization formula by the Department of Rural Development in calculating equalization grants. Actual average expenditures over the 1982-84 period amounted to $136.4 million. The 1985 expenditures recognized in the equalization formula, the rates of which are based on the previous year's unit costs for various municipal operations, amounted to $136.3 million, a difference of less than one-tenth of one percent.
- The 9 municipalities in which potash mines are located and which receive the bulk of the potash tax sharing monies, on the other hand, spent an average of 46% more than the expenditure recognized in the equalization formula.[5] Their mill rates could have been considerably lower if they had decided to spend at a level closer to that which is recognized.[6]

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[4] See Appendix II-13 for a listing of the revenues and disbursements for individual municipalities.

[5] The rural revenue sharing formula recognizes the different types of roads required and the higher cost of road maintenance needed in these rural municipalities, as a result of the mines. However, the 9 municipalities spent 46% over and above those higher recognized expenditures.

[6] The mill rates were, nevertheless, an average of 10 mills lower than the simple provincial average. See Appendix II-14.

The Commission emphasizes that the foregoing is not meant to be a criticism of the decisions made by the municipal councils involved. The councils are faced with making decisions on the level of services their taxpayers desire, and the amount which their taxpayers are prepared to pay in meeting those services. Municipal councils are given certain powers and duties for the very purpose of permitting local as opposed to provincial decisions to be made on local matters, and those decisions must be respected.

It is also legitimate for a municipality to consider the impact that its decision on mill rate will have on the level of monies it will receive under the potash tax sharing arrangement. The question is not whether municipal decisions are appropriate but, rather, whether or not it is appropriate for a particular component of the potash tax sharing formula to be structured as it is and to exert the influences that it does.

D. Conclusions/Recommendations

The Commission reached the following conclusions and observations in regard to the arrangements for municipal potash tax sharing:

- **The overall concept of distributing the revenues from the potash mines to a larger number of municipalities which are theoretically impacted by the mines in terms of direct or indirect service requirements has a great deal of merit.**

- The 10%/90% split between urban and rural municipalities is somewhat arbitrary, but the Commission has no basis upon which to suggest a different percentage. Any percentage would be arbitrary, unless it were set for each mine on the basis of the unique circumstances pertaining to that mine. The evaluation of those unique circumstances would be a difficult task around which considerable debate and contention could be generated.

  Some suggest that the urban share is too small. However, the Commission believes that the equalization component of urban municipal revenue sharing programs should be designed to give recognition to substantial increases in ongoing expenditure requirements, and that such special circumstances should be capable of being dealt with through that mechanism. This would seem preferable to endeavouring to deal with such situations through the diversion of monies currently going to rural municipalities under the potash tax sharing arrangements.

  The Commission is aware of the delicate circumstances under which the municipal potash tax sharing arrangements came into existence, and how the expectations of certain large urban municipalities for a share of the potash revenues was a matter of great contention. The Commission sees no merit in reopening that aspect of the debate.

  In short, the Commission sees no basis for a change in the 10%/90% sharing ratio between urban and rural municipalities.

- The 10 and 20 mile radii used in determining the allocation of the tax sharing pool among municipalities are arbitrary and cannot be expected to conform closely to the proportions of direct or indirect services the municipalities are required to provide.

  One alternative would be to give to potash tax sharing board or some other such board the function of looking at traffic counts, type of traffic, road construction, and maintenance costs, etc., in order to arrive at a closer quantification of the impact of each potash mine on the services the respective municipalities are required to provide on an annual basis, and to allocate the revenue from the potash mines accordingly. However, the Commission recognizes that this could prove to be a contentious exercise, and whether there would be any "bottom line" improvement in relation to current practices is speculative.

  The Commission believes that the most important objectives behind the potash sharing arrangements are to have a broader distribution of the potash revenues to avoid unduly large windfall gains by individual municipalities and to maintain mill rates on potash mines which are not unduly low in relation to those of other payers of property tax throughout the province.

In short, although the 10 and 20 mile radii are rather crude mechanisms, the Commission believes they have achieved their intended purpose to a considerable extent, and there is no obvious alternative that would guarantee better results.

- **The current point system under which the actual mill rate set by a rural municipality determines the amount received by that municipality should be amended to eliminate the inducement that currently exists for municipalities to have higher mill rates.** This can be accomplished by two changes:

  i) The mill rate applied to a potash mine should be the average rural municipal mill rate in the province as a whole.

  ii) The procedure under which the basic points allocated to a municipality are adjusted taking into account the actual mill rate of the municipality, should be eliminated.

  These measures would allow each municipality to make its decisions on its local mill rate and level of expenditure, without being concerned about a large impact on its share of the potash tax sharing or on the amount levied on the potash mines.

  The Commission recognizes that this would represent an average increase of about 10 mills for the potash mines. The Potash Tax Sharing Board may wish to consider phasing in such increases over a period of years.

- **The Commission recommends that a percentage of the revenues from potash mines be allocated to rural municipalities throughout the province to reduce the windfall presently going to certain rural municipalities.**

  The Commission came to this conclusion because the current sharing arrangements still leave the municipalities with potash mines with a major windfall. They are able to spend 46% more than the average municipality and still have mill rates averaging 10 mills lower than the simple rural municipal average.

  A broader distribution of the potash tax sharing revenues would serve to reduce the amount of windfall revenue received by relatively few rural municipalities.

  The percentage of municipal potash tax revenue which should be earmarked for broader distribution, and any consequent adjustments which may be required in the formula to distribute the remaining portions of the revenues should be subject to a separate study.

4. OTHER TAX SHARING ARRANGEMENTS

There are numerous commercial/industrial establishments which generate large amounts of property taxation and which have an impact on municipalities beyond the one in which they are located and, accordingly, are potential candidates for tax sharing arrangements. The Commission has some observations to make in regard to the power generating facilities of the Saskatchewan Power Corporation and in regard to a vehicle for dealing with other situations where a form of tax sharing or special arrangements should be made.

A. Power Generating Plants of the Saskatchewan Power Corporation

The Saskatchewan Power Corporation, as noted in the previous chapter, does not pay grants-in-lieu of taxes on its power generating plants.

If S.P.C. were to pay full grants-in-lieu of taxes on its power generating facilities, huge windfalls would accrue to the municipalities in which the plants are located. The assessed value of some plants is greater than potash mines. It is obvious to the Commission that if S.P.C. were to pay full grants-in-lieu of taxes on its generating plants, a tax sharing arrangement would have to be in place to allocate the revenues in a fair and reasonable manner.

The Commission does not, however, recommend the payment of full grants-in-lieu of taxes on S.P.C. power generating facilities, for two main reasons:

- Municipalities already have access to large amounts of revenue in regard to the electricity and natural gas utilities by virtue of the grants and surcharges that are payable. The Commission has made recommendations in Chapter Two of this Part which would provide access to this revenue source by all municipalities.

- The Commission estimates that the payment of full grants-in-lieu of taxes on S.P.C. power generating stations could cost over $2.5 million. The Saskatchewan Power Corporation would have to finance this increase in expenses from those who consume electricity throughout the province. The Commission believes there is little merit in having consumers of electricity bear an additional cost in order to provide revenues to a few municipalities in excess of that which is required by those municipalities.

The Commission does recommend, however, that the Saskatchewan Power Corporation continue to make compensatory payments to municipalities in which the facilities are located and to other nearby municipalities, if applicable. The Commission believes that the following principles should apply:

— S.P.C. should be prepared to provide payments to financially support major investments in infrastructure which a municipality may require or as a result of the establishment of a power plant.For example, a rural municipality may be required to construct new roads or upgrade existing roads or build new bridges. Such reimbursement might be in the form of lump sum payments or a schedule of payments over a prescribed period of years.

— S.P.C. should be prepared to compensate a municipality for losses in its tax base brought about by the location of the plant. For example, some municipalities may lose taxable land because of flooding associated with hydro generating stations.

— Municipalities should receive financial support for specific types of ongoing incremental expenditure arising from the plants. For example, a rural municipality may have substantial increases in certain road maintenance costs arising from the plant.

The foregoing types of payments are appropriate alternatives to the payment of full grants-in-lieu of taxes. They would compensate for the financial impact of the plant, without providing a major windfall gain to the "host" municipality. While they would be a cost to S.P.C. which would have to be reflected in the general electrical rate structure, they would be considerably smaller than if full grants-in-lieu of property taxes were payable.

B. Commercial/Industrial Tax Allocation Board

The Commission recommends that legislation be developed to create a Commercial/Industrial Tax Allocation Board. It is further recommended that the members of the Local Government Board plus one representative each from S.U.M.A. and S.A.R.M. constitute the proposed board. This board would have the responsibility for:

- Determining the level and types of payments which the Saskatchewan Power Corporation should make on its power generating facilities, as discussed above.
- Identifying other commercial/industrial establishments where it believes special arrangements, such as those the Commission recommends in regard to S.P.C. power generating plants, should be implemented, and making recommendations to the provincial government in this regard.
- Identifying commercial/industrial establishments where formal intermunicipal tax sharing arrangments should apply, and making recommendations to the provincial government accordingly.
- Developing formulas or specifying tax sharing arrangements, as the case may be, to govern those situations where the provincial government agrees tax sharing should take place.

Besides the S.P.C. generating facilities, there are a number of other commercial/industrial establishments which would warrant examination by the proposed Board. The planned heavy oil upgrader at Lloydminster is an obvious example. It would have a huge assessed value, and its impact would go well beyond the municipality in which the main facilities will be located.

The Commission recognizes the difficulties which would be involved in applying new arrangements to commercial/industrial establishments which have been in existence and paying property taxes for some time. In the view of the Commission, it would be preferable to leave the current situation unchanged, unless there were a clear inequity involved and unless new arrangements would clearly rectify the inequity. Major new establishments or major expansions to existing establishments should not be exempt from examination to see if there is merit in tax sharing arrangements.

The Local Government Board (L.G.B.) already performs related types of roles. Care would have to be taken to ensure that L.G.B. had sufficient research and analytical capacity to adequately cope with the responsibility. The Local Government Board, plus one representative each from S.U.M.A. and S.A.R.M.currently constitutes the Municipal Boundaries Commission which hears contentious requests for annexations and boundary proposals from municipalities. A similar arrangement is proposed for the membership on the proposed Commercial/ Industrial Tax Allocation Board.

CHAPTER FOUR

THE BUSINESS TAX

In this chapter, the Commission considers a number of basic issues relating to the business tax.

1. BACKGROUND

- The Business Tax Defined

The business tax is an occupancy tax which is levied against the owner of a business. Whether or not the owner of the business also owns the building in which the business is located has no bearing on the amount of business tax levied. At one time, it was common across Canada for the stock-in-trade of a business to be assessed and taxed. This practice gradually disappeared and, in its place, the current system of assessing the value of a business evolved.

Each business is given an assessed value and that assessment is subject to the same mill rate that applies to the assessment of land and buildings. In other words, the business tax levy is an addition to the levy on the land and improvements. Because the business, as opposed to the land and buildings, is an intangible asset, and because of the fact that the owner of a business may not own the building in which the business is located, the business tax is not secured by lien.

Business assessments in 1986 are estimated to be 1.7% of the total rural assessment and 8.4% of the total urban assessment. For the province as a whole, business assessments amount to approximately 5.9% of the total assessment.[1] The Commission estimates that roughly $38 million was raised in business tax across Saskatchewan in 1985.

The business tax is generally considered to be part of property taxes, even though municipalities often maintain separate assessment rolls for business and real property assessment. Throughout this report, the term property tax includes business tax, unless otherwise indicated. For example, the Commission's estimate of 1985 property taxes of $634 million includes taxes on real property and businesses.

- Two Systems in Saskatchewan

Two systems of arriving at business assessments are used in Saskatchewan:

— The Occupied Floor Space Method

Under this method, average rates of return are determined for each type of business and these are converted to dollars per square foot. The business assessment for an enterprise is the number of square feet occupied by the enterprise, multiplied by the rate per square foot for that particular type of business. The schedule of business assessment rates is adjusted according to the population and amenities in the community. The business assessment rate is the same throughout a particular municipality, regardless of the location of the business within the municipality.

— The Rental Value Method

Under this method, the rental values of properties in various locations in a community are determined. The business assessment of an enterprise is the amount of space occupied by the business multiplied by a standard percentage of the rental value of the property in that particular location.

Saskatoon uses the Rental Value Method while the Occupied Square Footage Method is applied to all other municipalities in Saskatchewan. Although Regina uses the Occupied Square Footage Method, it develops its own set of rates, subject to the approval of the Saskatchewan Assessment Authority.

- Other Provinces[2]

Some type of business tax, over and above the tax levied on land and buildings, is levied in all provinces with the exception of Prince Edward Island and New Brunswick. In the latter provinces, the rates of taxation on commercial property are double and 1.5 times the rates respectively that apply to the residential sector; this has somewhat the same effect as having a separate business tax. Municipalities are required by law to levy business taxes in Newfoundland, Nova Scotia, Ontario and Saskatchewan. It is an optional form of taxation in other provinces.

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[1] Saskatchewan Assessment Authority, preliminary 1986 assessments.

[2] The Canadian Tax Foundation, **Provincial and Municipal Finances, 1983**, pp. 152 - 155.

All municipalities in British Columbia, Alberta, Manitoba and Quebec are authorized to use the Rental Value Method of levying business taxes if they so choose. In Saskatchewan, cities are also permittedby law to use this method, but only Saskatoon has chosen to implement it.[3] Under this method, there may be a uniform rate applied to all business, as in the case of Montreal, Saskatoon, Calgary, Vancouver and Victoria, or there may be variations in the rate among different types of business such as in Winnipeg and Edmonton.

Business assessments are subject to levies by school divisions in Saskatchewan, Ontario, and Newfoundland, but not in other provinces.

- Percentage of Land and Buildings Method of Business Assessment

In addition to the two methods of arriving at business assessment used in Saskatchewan, there is a third method which simply takes a percentage of the assessment of the land and buildings occupied by the business. The percentages may vary with the type of business. For example, in Ontario where the system is used, the percentages are set out in legislation and they vary from a low of 25% for car parks to a high of 140% for distilleries. This method is also used in Nova Scotia where, with certain exceptions, the business assessment is 50% of the value of land and buildings occupied by the business.[4]

Although New Brunswick and Prince Edward Island do not have a business tax, as such, by levying a higher tax rate on commercial assessment, the result is similar to having a business tax determined through the percentage of land and buildings approach.

In British Columbia, legislation allows municipalities to levy different tax rates on different classes of property. In 1983, the City of Vancouver approved a three year phase-out of the business tax, to be accompanied by corresponding increases in the non-residential property tax. Again, the effect is much the same as having a business tax where the assessment is based on a percentage of the value of the land and buildings occupied.

- Business Tax Relative to Tax on Real Property

The Commission obtained data on the current property taxes paid by all businesses in two towns, one with a population of approximately 560, and another with a population of approximately 1,200. The following information was obtained:[5]

— The average business tax was $713 in the small town and $734 in the larger town.

— The average tax on land and improvements was $1,714 in the small town and $1,815 in the larger town.

— The average total property tax (combined business tax and tax on land and improvements) was $2,427 in the small town and $2,549 in the larger town.

— The business tax amounted to 29.4% of the total property tax in the small town and 28.8% in the larger town.

— For every $100 in tax on land and improvements, there was an average of $41.60 of business tax in the small town and $40.40 in the larger town.

— In terms of individual businesses, business taxes in the small town ranged from $8.40 to $114.00, for every $100 in taxes on land and improvements. In the larger town, the range was from $7.40 to $115.80.

— In the small town, 48.5% of the businesses had business taxes of $50.00 or more for every $100 in taxes on land and improvements. In the larger town, this situation applied to 48.4% of the businesses.[6]

The Commission also obtained data on the overall business assessment in Regina and found that it amounted to an average of 31.6% of the tax on land and buildings. In terms of individual businesses, the breadth of range was similar to that of the two towns.[7]

- Trend in Business Assessment in Saskatchewan

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[3] It could be argued that cities below 25,000 population do not really have an option because the Assessment Authority provides their valuation service and has chosen to use the Occupied Square Floor Space Method.

[4] The Canadian Tax Foundation, **Provincial and Municipal Finances, 1983,** pp. 152 - 155.

[5] See Appendix II-15.

[6] See also Appendix II-16.

[7] See Appendix II-17.

A comparison of the relative importance of business assessment between 1975, the last year before the current reassessment program was initiated, and 1986, the first year after the completion of the reassessment program, shows:[8]

— That in Regina, business assessment has increased slightly from 9.0% of total assessment in 1975 to 10.2% in 1986.

— That in Saskatoon, business assessment has fallen substantially from 9.4% of total assessment to 5.8%. This reduction is due, in large part, to decisions to allow business assessment rates to decline as a percentage of actual market value rental rates. In 1965, business assessment rates amounted to approximately 90% of actual market value rental rates but, by 1986, this had declined to approximately 50%.

— That in other cities, business assessment has increased slightly from 9.7% of total assessment to 10.7%.

— That in towns and villages, business assessment has declined significantly from 11.4% of total assessment to 7.2%.

— That in rural municipalities, business assessment has doubled its share of total assessment from 0.8% to 1.7%.

— That for the province as a whole, business assessment has remained unchanged at 5.9%.

In 1975, Regina and Saskatoon had approximately the same level of business assessment. However, by 1986, total business assessment in Saskatoon had fallen to approximately one-half of the level in Regina.

The trends in business assessment are a product of both the business assessment rates and the level of business activity in various municipalities or categories of municipalities. For example, the doubling of business assessment in rural municipalities reflects, in part, an increased number of businesses located in rural municipalities largely as a result of spillovers from major urban centres and expansion of potash mines.

Although the 1986 business assessment in rural municipalities is 1.7% of total assessment, the percentages for individual municipalities vary from 0.0% to 15.8%. Similarly, among villages and towns business assessment averages 7.2% of total assessment, but ranges between less than 1.0% and 15.1%. Among cities, the average is 8.6% and the range is from 5.9% to 11.3%.

2. ISSUES

There are several issues in regard to the business tax:

- existence of business tax;
- shifts in tax load;
- school portion of business tax;
- level of business tax;
- uniformity of systems;
- abatements;
- the choice of business assessment systems.

Each of the foregoing issues is discussed below:

A. Existence of Business Tax

Some question the very existence of the business tax, arguing that it is unfair and that it should be eliminated, while others support its retention.

1) Arguments Against the Business Tax

A number of arguments have been made against the concept of the business tax in support of the contention that the business tax should be eliminated entirely:

- No Rationale

  It has been suggested that there is no rationale for the business tax, because businessmen already pay property taxes on the land and buildings they occupy.

- Fairness

  It has been suggested that the business tax is not a fair tax, not only because businessmen already pay property taxes on their real property, but because it bears no necessary relationship to ability to pay. Businessmen have also suggested that certain types of businesses are either not subject to the business tax or the application of the business tax is not enforced (i.e. the business of farming, businesses operated out of homes or garages, and transient traders).

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[8] See Appendix II-18.

Another concern is that the business tax does not apply to some people who earn their incomes from other than owning a business. For example, it is argued that persons on salaries typically do not pay business taxes. Businessmen suggest that this reflects an assumption that businessmen are more able to pay taxes than those who earn their incomes in other ways, and that this assumption is not correct.

It is also pointed out that certain non-profit groups provide goods and services in competition with businesses, but yet do not pay the business tax, thereby putting the businessmen at a competitive disadvantage.

- Alternative Taxation

  It has been suggested that there are alternatives to the business tax which would be more fair, such as the corporate income tax.

2) Arguments for the Business Tax

A number of arguments have been made in favour of retaining the business tax:

- Income Tax "Leakage"

  It has been pointed out that business taxes are a deductible expense in arriving at taxable income. If business taxes are reduced and other taxes which are not deductible expenses are increased, overall taxable income will increase, assuming things are equal. If taxable income goes up, income tax payments, the bulk of which leave the Province to the federal government, will increase. In this way, for every one dollar of reduction in business taxes, there would be a resulting "leakage" of an estimated 32¢ from the Saskatchewan economy.[9]

- Other Leakages

  It has been suggested that the elimination of the business tax would cause other types of leakages from the Saskatchewan economy. For example, the federal government pays grants-in-lieu of business taxes on its post offices. Elimination of the business tax would result in a loss of these revenues from the provincial economy. Another example is large businesses which have their headquarters outside Saskatchewan. It is suggested that the elimination of the business tax would result in less expense and more profit for the business, the bulk of which would accrue to locations other than Saskatchewan.

- Shifts in Tax Load

  Quite apart from the question of "leakages"of monies from the Saskatchewan economy, some businessmen believe that they are better off financially to pay taxes on their business where it can be used as an income tax deduction as opposed to having the tax shifted onto their homes (the residential or non-commercial sector) where property taxes cannot be used as income tax deductions. (The various shifts in tax load arising from possible elimination of the business tax are outlined later in this chapter.)

- "A Tax is a Tax"

  Some have suggested that all taxes are designed to raise revenues and that this is the only justification that is necessary for a tax to be in place.

- The Passing on of the Costs of Business Tax

  Some argue that the business tax is a cost of doing business and that business taxes are reflected, to varying degrees, in the prices charged by the business and that, in this way, the real burden of the business tax is passed on to the consumer. It is further suggested that non-residents help to pay the business tax and support the municipality financially through the products or services they purchase.

- Business Environment

  Some argue that businesses depend on the community for the physical environment in which to do business (including municipal, educational and health services infrastructures), and for the "quality of life" in the community which is important in enabling the business to attract good managers and other employees. Accordingly, they argue that businesses should be prepared to provide an extra measure of financial support for that environment and infrastructure.

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[9] This is based on an estimate of the number of businesses and their average marginal federal tax rates.

- All Taxes Have Some Unfairness

  Some also argue that all taxes have some form of unfairness and that what is desired is a portfolio of taxes that has overall fairness, rather than endeavouring to rely exclusively on one or very few taxes that are deemed to be fair.

3) Commission's Evaluation of the Arguments

- Rationale for the Tax

  The Commission believes that few taxes have a rationale other than to raise revenue for the purpose of financing public services and, in this sense, the business tax is no different than many other taxes. For example, one might question whether there is any rationale for the general sales tax apart from the fact that it is required to assist in financing the services provided by the provincial government.

  The Commission believes that a more critical question is whether the business tax is or can be a fair tax.

- Fairness

  The Commission recognizes that the business tax, like the tax on land and improvements, is insensitive to changes in ability to pay and is regressive for those with low incomes. It was for this reason that the Commission recommended an income-based property tax credit that would apply to the tax on business as well as to the tax on land and buildings.

  The less-than-universal application of the business tax is a legitimate criticism.

  The fact that all taxes have some unfairness associated with them is not a sufficient argument for maintenance of the status quo. The question must be asked as to whether there are other practical and desirable potential sources that are more fair, and what can be done to improve the fairness of the tax if it must be retained.

- Leakages

  The "leakages" from the Saskatchewan economy which would arise if there were a reduction in taxes which can be claimed in the computation of income tax, and other leakages, are realities which are relevant to consider, but must be balanced against other considerations.

- The Passing on of the Business Tax to the Consumer

  While the Commission believes that this is a legitimate consideration, it must be recognized that some businesses are able to pass on their increases in costs, including the business tax, to the consumer, while other businesses are not in a position to do so. Whether or not the tax can be passed on depends on the competitive position of the business relative to other businesses both inside and outside the municipality.

- Business Environment

  The Commission does not believe that the provision of a business environment by the community is a clear cut defense for the business tax. One counter-argument is that people in the community are, in general, as much dependent on the business sector as business is dependent on the community within which to do business. In large measure, people choose to live in a community because of the services and employment opportunities provided by the business sector.

  Another counter-argument is that businesses do financially support their communities through the taxation of the land and improvements they occupy and that, in fact, the land occupied by businesses is normally assessed at a higher level than the residential sector.

The Commission believes that there are some legitimate concerns in regard to the business tax, but there are numerous negative implications if it were eliminated. On balance, the Commission believes the arguments for and against the business tax point to the continuation of at least some form of business tax.

B. Shifts in Tax Load

There are a number of shifts in tax load which would take place if the business tax were eliminated. These shifts and their deemed appropriateness are relevant to the arguments about whether or not there should be a business tax. The main types of shifts are as follows:

- Shifts Within the Municipality

  Elimination of the business tax would bring about a shift away from the commercial/ industrial sector onto the residential sector.The amount and percentage of the shifting depends upon the amount of business tax in the municipality and the relative size of the commercial/industrial and residential sectors.

  An analysis shows that the shift in the City of Regina and other communities where the business tax amounts to about 10% of the total tax proceeds, would be a 15% reduction in the tax load in the commercial/industrial sector and an 11% increase in the residential sector.[10]

  In municipalities in which the business tax is a greater percentage of total taxation, the shift would be greater while conversely, where the business tax is a lesser percentage of taxation, the shift would be smaller.

- Shifts Among Urban Municipalities and Among Rural Municipalities

  Quite apart from the shifts in tax loads that would take place within a municipality, the elimination of the business tax would also have the effect of shifting the tax load among municipalities because of the operation of the equalization formulas that are used to distribute some of the revenue sharing monies among urban and rural municipalities.[11]

  The equalization formulas have the effect of compensating municipalities, to some extent, for the size of their tax base relative to their financial responsibilities. The smaller the local tax base, other things being equal, the larger the equalization payment. The larger the local tax base, other things being equal, the smaller the equalization payment.

  If the business tax were eliminated, the tax bases of all municipalities which currently have business assessments would decrease. This would have the effect of increasing the equalization entitlement of these municipalities. The larger the amount of business assessment lost from the tax base, the larger the increase in the equalization entitlement. However, because the elimination of the business tax would not, in and of itself, increase the total amount of monies available to municipalities as a group, the net effect of the elimination of the business tax would be to redistribute the payments among the municipalities. Rural municipalities which currently have relatively large amounts of business tax would tend to get increases in equalization payments, while the rural municipalities with little or no business assessment would experience losses in equalization payments. The same type of reallocation of equalization payments would occur among urban municipalities.

  Depending upon the amount of equalization in the respective formulas, the municipalities with large amounts of business assessment would tend to have some of the loss of their tax base "cushioned" by the receipt of additional equalization payments. However, these payments would be at the expense of other municipalities which currently have relatively small amounts of business assessment.

- Shifts from Urban Municipalities to Rural Municipalities

  The elimination of the municipal portion of the business tax would cause shifts in the tax loads within individual municipalities, shifts among rural municipalities and shifts among urban municipalities. It would not, however, cause any shifts between taxpayers in urban and rural municipalities, because the revenue sharing pools are separate.

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[10] Based on an unpublished study completed by the Saskatchewan Assessment Authority in August, 1984.

[11] The equalization principle, the formulas under which the principle operates, and the revenue sharing program will all be discussed in detail in Part III of this report.

The elimination of the school portion of the business tax, however, would cause a substantial shift of the tax burden from those who pay property taxes in urban municipalities to those who pay property taxes in rural municipalities. This arises because the urban assessment base would be lowered more than the rural assessment base, and the same amount of overall revenue would still be required to operate the school system. It is estimated that there would be a shift of approximately $5 million from urban taxpayers to rural taxpayers.[12]

The Commission does not believe that shifts in taxation are valid reasons in and of themselves, for retaining the business tax. The question is whether or not the shifts are fair. For example, if it is concluded that the business tax is less fair than the tax on land and improvements, the shifts associated with putting more emphasis on land and improvements would bring about greater fairness.

There are also ways of compensating for the shifts.For example, if provincial transfer payments to local governments were increased to offset the loss in revenue from the elimination of the business tax, then businesses would pay less taxes, but others would have no change in their property taxes. In regard to the urban to rural shift, the percentage of value of farmland used for arriving at assessed value could be reduced such that rural assessments go down by an amount proportional to the decrease in urban assessments. In this way, there would be no overall urban/rural shift in tax load.

C. School Portion of Business Tax

Some suggest that the municipal portion of the business tax should be retained, but that the school portion and possibly other portions should be eliminated.

The proponents of this approach argue that businesses receive direct municipal services over and above the services that other residents of the municipality receive, and that this justifies the municipal portion of the business tax. They also argue that, on the other hand, the business community does not receive direct benefits from the school system, at least not over and above that which the community as a whole enjoys.

If it were considered desirable to reduce the business tax but not eliminate it, the elimination of the school portion would be one of several means by which that objective could be achieved.

The Commission does not believe that a solid case can be made to support the contention that the business sector receives more in municipal services than the residential sector. Businesses may get a level of police protection for their property that residents do not receive but, on the other hand, businesses do not benefit directly from services such as cultural and recreation services and public health services.Businesses do tend to have their streets cleared of snow and swept more often than residential streets, but the question is whether this benefits only the businesses or whether it also benefits the public-at-large who patronize the businesses.Arguments can be made on either side of this issue, but the Commission sees no clear-cut indication that businesses receive extra levels of municipal services.

In any event, business taxes for individual businesses are neither intended to be proportional, nor are they in fact proportional to the services they receive. The business tax is not intended to be a form of taxation based on the benefit principle. It is intended to be a form of taxation which reflects ability to pay even though it is by no means a perfect means of doing so.In short, the "extra service argument" is not a valid argument in defense of the municipal portion of business tax relative to the school portion.

On the other hand, it can be argued that businesses do receive a benefit from the education sector through the training that their prospective employees receive.

In short, the elimination of the business tax for school purposes is one way of achieving a reduction in the business tax if this is deemed to be a desirable objective. It would be difficult to justify such an option, however, on the basis of relative levels of services businesses receive.

D. Uniformity of Business Assessment Systems

As noted earlier, there are two different systems of arriving at business assessments in Saskatchewan, the Rental Value Method, and the Occupied Floor Space Method. In view of the fact that the City of Regina uses its own schedule of rates under the Occupied Floor Space Method, some would suggest that there are actually three variations of business assessments in Saskatchewan.

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[12] See Appendix II-19.

It has been argued that the utilization of different systems can result in different levels of business assessments in different communities, thereby putting businesses in some communities at a competitive disadvantage. It is argued that use of a single system throughout the province would remove the business assessment as a basis for creating either competitive advantage or disadvantage among businesses.

In order to determine the magnitude of differences in business taxes that can arise by use of different systems of determining business assessments, the Commission undertook an analysis of the level of business taxes in Saskatoon and Regina which use different systems.

The 1984 business tax for 15 different businesses were determined using both the system in use in Saskatoon and the system used in Regina. The comparison shows that, on average, business taxes in Regina were 194% higher than they were in Saskatoon for the sample selected.

It is important, however, to take into account the overall rates of property taxation in the two cities to avoid reaching incorrect conclusions, about the basis upon which business assessment and taxation are done. The overall municipal/school/library mill rate in Regina in 1984 was 25.7% higher than it was in Saskatoon.[13] If Regina's overall mill rate had been the same as that of Saskatoon, the business tax in Regina would have been 134% higher in Regina than in Saskatoon, not 194% higher.

About 31% of the difference between Regina and Saskatoon's business taxes are accounted for by differences in the overall mill rate.[14] The remaining 69% of the difference is due solely to the way in which the two systems are applied.

The two systems used in Saskatoon and Regina will inevitably bring about different distributions of the business tax load within their respective communities. It is by no means inevitable, however, that there will be differences in the overall average level of business taxation. Under the rental value method, there are three types of local decisions that affect the level of business taxes:

- How current to keep the rental rates. If they are not revised frequently, they can get out of date and, other things being equal, this will tend to bring about lower business taxes.
- The percentage of rental value to be used in arriving at the assessed value. This is an arbitrary decision which, other things being equal, affects the level of business tax.
- The rate of taxation to be applied to the business assessments. By virtue of the authority that comes with use of a different system of business assessment, a separate rate of taxation (i.e. 14% of business assessment in 1986) is applied to the business assessment in Saskatoon. All other municipalities must apply the same rate of taxation to business assessment that is applied to the assessment of land and improvements.

The City of Regina used the same system of business tax as the Saskatchewan Assessment Authority used for all other municipalities in Saskatchewan, but the city developed its own schedule of rates.

Other municipalities which had the assessments done by the Saskatchewan Assessment Authority had no means by which to determine the level of business taxes in their respective municipalities.

The essential point is that by virtue of the discretion that comes with the use of different forms of business assessment, the cities of Saskatoon and Regina have made choices which have resulted in quite different levels of business taxes. There is nothing inherent in the method used by either city that determines the overall level of business taxes. Policy decisions determine the overall level of business taxes just as they determine the level of other taxes.

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[13] See Appendix II-20.

[14] It should be emphasized that the Commission has identified the difference in mill rate between Saskatoon and Regina only as a means of properly analyzing different levels of business tax. The reasons behind differences in mill rates are complex and it is not within the mandate of the Commission to comment on mill rates in individual municipalities, except to the extent that they are caused by the nature of the tax base or problems with provincial funding formulas.

The purpose of the foregoing is not to evaluate the appropriateness of the level of business taxes in the two cities. Instead, it is used to point out the implications if individual municipalities have the authority to use different systems of business taxation and to set different rates.

The Commission believes that there would be merit in having the same type of business assessment system used throughout Saskatchewan, just as is done in the assessment of land and improvements. In this way, intercommunity tax competition can be avoided and competitive advantages or disadvantages for businesses arising from the property tax will be kept to a minimum.

E. Level of Business Tax

One argument is that the business tax should be retained, but that its level should be reduced. The Commission examined a number of measures of the relative magnitude of the business tax.

The Commission was surprised at the magnitude of the business tax in Saskatchewan. In the two towns surveyed, the business taxes averaged about $40.00 for each $100 of tax on land and improvements, and this was considerably larger than Commission members would have assumed prior to examining the data. After obtaining this information, the Commission was better able to understand the concerns expressed by many businessmen about that particular tax.

The Commission was also interested in some information on the magnitude of the business tax in Saskatchewan relative to other provinces. Two types of interprovincial comparisons were made:

- City of Winnipeg Survey

  The City of Winnipeg undertook a survey of the business taxes for 11 types of businesses in 8 cities in Canada for the purpose of determining the relative level of business taxes in that particular city. Because the systems of business taxation varied among the cities, the business taxes in each of the cities were converted to rates on a square footage basis to make them comparable. As seen in Table II-1 below, the 2 Saskatchewan cities included in the survey were at the 2 extremes. Regina had the highest business taxes at an average of $1.93 per square foot, while Saskatoon had the lowest at $0.62 per square foot.

TABLE II-1
BUSINESS TAXES PER SQUARE FOOT AVERAGE FOR 11 BUSINESS TYPES 1983

City	Business Tax Per Square Foot
Regina	$1.93
Quebec	1.71
Simple Average	**1.00**
London	0.86
Montreal	0.77
Calgary	0.72
Hamilton	0.69
Winnipeg	0.66
Saskatoon	0.62

NOTES:

1) The types of businesses surveyed were a large supermarket, a hairdressing salon, a dance school, a real estate agency, a law office, a bakery, a wholesale dealership, a trust company, a bank branch, a bowling alley, and a drug store.

2) Regina's overall mill rate is higher than Saskatoon's, and this accounts for part of the difference in the business tax per square foot between the two cities.

SOURCE: Report of the Task Force on the Business Assessment Classification System and the Tax Rate Structure of the City of Winnipeg, Feb., 1985.

- Per Capita Levels

  On an overall per capita basis, business taxes in Saskatchewan are substantially lower than the Canadian average. According to Statistics Canada sources, in 1985, business taxes in Saskatchewan amounted to $27.29 per capita, while the average for provinces in which a business tax is levied was $60.40 per capita. Manitoba's business taxes amounted to $31.05 per capita while in Alberta, they averaged $55.63 per capita.[15]

  The Commission found it noteworthy that per capita business taxes were higher in both Manitoba and Alberta, even though business assessments are subject to only municipal levies in those provinces, while in Saskatchewan, they are subject to all local government levies.This would seem to suggest that it is the level of business assessments themselves, not only which local governments have access to the business assessment base, which determines the overall level of the business tax.

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[15] See Appendix II-21 for some information relating to the accuracy of these comparisons.

As noted earlier, overall business assessments in Saskatchewan have remained a fairly constant 5.9% of total assessment over the past decade.[16]

There is no simple answer to the question of whether or not the business tax is too high in Saskatchewan. Over all per capita rates of business taxation in Saskatchewan are lower than in either Manitoba or Alberta and are considerably lower than the average for provinces utilizing the business tax. However, the per capita comparisons may be somewhat misleading. Also, the fact that there are substantially different levels of business taxation in the province, particularly between the two largest cities, also needs to be taken into account. The average may not be out-of-line, but they may indeed be out-of-line in a particular municipality or municipalities, and they may be out-of-line in regard to particular types of businesses.

F. Abatements

The Commission notes that the ability of municipalities to abate taxes can also create different levels of business taxation. One town in Saskatchewan has abated all business taxes, thereby creating a larger difference in tax impact than the difference in business assessment systems would produce. Quite apart from the issues of intermunicipal differences in business taxes, this action has resulted not only in a shift of tax load within the municipality, but because the school division has lost the revenue from the business tax in that community, it must levy a correspondingly higher mill rate on all other municipalities in the school division to regain the lost revenues.

Earlier in this chapter, the Commission expressed its concern about the variations in levels of business taxes that can arise among municipalities which use different systems for arriving at business assessments. The Commission concluded that a uniform system of business assessments should be used across the province to avoid unproductive tax competition and the creation of unfair competitive advantages and disadvantages for businesses arising from the business tax.

The ability of municipalities to implement across-the-board abatements of all business taxes has far greater potential for bringing about major differences in business tax levels among municipalities than differences in business assessment systems.Accordingly, the Commission believes that municipalities should not have the authority to implement across-the-board abatements. The authority to grant selective abatements, on the other hand, should be continued.

G. The Choice of Business Assessment Systems

As noted above, the Commission believes that if the business tax is to continue to exist, there should be a common basis of business assessment throughout the province. The question is which of several systems to use.

1) The Occupied Floor Space Method

Once the rates for different types of businesses have been determined, the application of the Occupied Floor Space Method is relatively simple and it can be readily used in all types and sizes of municipalities.

The Occupied Floor Space Method could be improved considerably in relation to what is now being used. The rates of return for various types of businesses that form the basis of this method were calculated in the early 1950'. The relative rates used for different types of businesses have not been changed since that time. In the most recent general reassessment, the original rates were all arbitrarily increased by 70%, thereby maintaining the same relative values. If a new set of rates of return were developed, the assessments would presumably be improved. Much has changed since the early 1950's, with new types of businesses arising, others dying out, and their relative profitability changing.

However, the occupied floor space method has one very serious flaw that makes it unsuitable as a candidate for province-wide application.The rates are the same for a given type of business, regardless of the location of that business in the municipality. Thus, a business located in a prime location (usually measured by high potential customer traffic) pays the same rate of business tax as a business located in a relatively poor location and, accordingly, it poorly reflects potential profitability.

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[16] See Appendix II-18.

2) The Rental Value Method

This system is theoretically sound and it is relatively well accepted by the business community in Saskatoon where it is used.[17]

This method has a great deal of merit because it has the ability to reflect the market place and potential profitability by taking into account the various rates at which properties are rented in various locations in a municipality. Properties rent for varying rates largely because of their potential to facilitate varying incomes for the businesses that occupy the premises.

The Commission believes that this method is the best of the options examined in terms of equity. However, because the market place tends to shift continually, this method is complex and requires a substantial staff to maintain it adequately. Also, the Commission believes that it would be impractical for province-wide use because of the absence of a sufficiently active rental market on which to base the assessments in many municipalities outside the cities.

3) Percentage of Real Property Method

This system has the advantage of being simple, easy to understand, and inexpensive to maintain. The business assessment is simply a standard percentage of the assessment of land and improvements. Providing the assessment of land is kept up-to-date, the system also reflects the rental market (potential profitability of various locations).

The Commission favours this method because it is theoretically sound, it is simple, and it is capable of being utilized throughout the province in both large and small municipalities.

In arriving at business assessments, a standard percentage of the assessment of land and improvements can be used for all types of businesses or, as in Ontario, different percentages can be used for certain categories of businesses, depending upon the desired distribution of the tax load within the business sector. Its flexibility is a substantial asset, although the Commission would recommend strongly that the decisions on the percentages be made by the Saskatchewan Assessment Management Agency, rather than by the individual municipalities. If individual municipalities had the authority to establish the percentages, this would largely negate the objectives behind a standard province-wide system.

There are two options which have much the same effect as the percentage of real property method:

- The Weighted Assessment Method

  Under this approach, instead of having a separate business assessment, the assessment of land and improvements would be increased by a certain percentage (or sets of different percentages for different categories of businesses) for the business sector compared with the residential sector.Thus, when the land and improvements of businesses are taxed at the same mill rate as the land and improvements of the residential sector, additional amounts of taxation would be derived from the business sector. It would have the same effect as determining a separate business assessment. In 1983, the City of Vancouver began a 3 year phase-out of a separate business tax in favour of this method.

- The Variable Mill Rate Method

  Under this approach, instead of having a separate business assessment or a weighted assessment for land and improvements of businesses, municipalities would tax the land and improvements of businesses at a higher rate than the residential sector. The higher rate could be legislated by the provincial government. That is, the provincial government could specify that whatever mill rate is set for the residential sector, the mill rate for the commercial industrial sector must be set at a certain percentage higher than the residential mill rate. The differential rates could also be established by the individual municipalities, but this would create all of the same problems as having different business assessment systems in each municipality.[18]

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[17] Some might argue that a substantial portion of its popularity is due not to the nature of the system but, instead, to the fact that the City of Saskatoon has chosen to have relatively low levels of business tax. As noted earlier, it is not the business tax system which is responsible for the overall level of business tax, but the rate of taxation that is applied to the assessments.

The Variable Mill Rate Method has less flexibility than either the Percentage of Real Property Method or the Weighted Assessment Method. Under the latter two methods, different weightings for different categories of businesses would be practical if they were desired. It would not, on the other hand, be practical to have numerous mill rates for different types of business property.

The Commission examined the implications of one particular approach to the use of the Percentage of Real Property Method. Specifically, the Commission determined the changes in business taxes that would take place in the two towns mentioned earlier and for a sample of businesses in Regina if:

a) The same overall amount of revenue from the business tax in the respective municipalities were desired, and

b) The same percentage of real property assessment were used for every business in the municipality.

Some very substantial changes would take place in the level of business tax for individual businesses if both of these assumptions were followed. Some of the changes would simply reflect the inappropriate business assessments under the old method, and large rates of increase or decrease need not be a concern from this perspective. However, other shifts may be considered to be too large or undesirable. In this regard, the Commission believes that careful attention would have to be given to the use of different percentages of real property assessment for different classifications of businesses, and for phasing in the changes.These decisions properly rest with the Saskatchewan Assessment Management Agency responsible for assessment policy.

In short, if the business tax is to continue, the Commission believes that the percentage of real property method should be utilized for all of Saskatchewan. The Commission also believes that consideration should be given to having different weightings for different types of business and that decisions in this regard be the responsibility of the Saskatchewan Assessment Management Agency with the authority for assessment, rather than empowering each municipality to make those decisions.

3. CONCLUSIONS

Taking into account all of the foregoing discussion, the Commission recommends:

- **That the business tax be continued.**

  The Commission acknowledges that there is legitimate debate in regard to the validity of the business tax but, on balance, believes that it should be continued.

  The Commission has reached this conclusion not with the view that the status quo should be maintained but, rather, that a number of changes need to be made to the business tax as it is now known in Saskatchewan.

- **That the business assessment continue to be subject to all of the levies to which assessments of land and improvements are subject.**

  The Commission does not accept the argument that the business tax is justified for municipal, but not for school or other local government purposes. The essential justification of any tax is that it is a means of raising revenues to finance public services, and there is little or no basis for the argument that it is more justified as a means of financing one type of local government, as opposed to another.

  One of the reasons why some propose the elimination of the school portion of the business tax is to bring about a reduction in the level of business tax. As noted in the data in Appendix II-21, however, other provinces in which the business tax is not paid to school divisions have higher overall business taxes per capita than does Saskatchewan. Access to the business tax base by school divisions does not mean that business taxes must necessarily be high. Policy governing the assessment of businesses can be such that any desired overall level of business tax can be achieved, taking into account which local governments tax the base.

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[18] Variable mill rates are discussed at greater length in Part IX.

- **That all municipalities be required to use the same system of business assessment.**

  Uniformity in systems is necessary to prevent disparities in the levels of business taxes relative to other taxes in the municipality. Tax competition among municipalities and the creation of artificial competitive advantages and disadvantages among businesses in different municipalities should be avoided.

- **That the current methods for arriving at business assessments in Saskatchewan be discontinued.**

  The Occupied Floor Space Method has serious flaws because it does not reflect the market place, and the potential profitability of different locations.

  The Rental Value Method is predominantly sound, but it is expensive to maintain and is impractical in the many municipalities throughout the province which do not have an active rental market.

- **That Saskatchewan implement the Percentage of Real Property Assessment Method for business assessments.**

  This method is simple and easy to understand. It is also capable of being used in all municipalities. Providing land assessments are kept up-to-date, this system also reflects the market place and potential profitability of various locations. Different percentages can be utilized for different types of businesses in order to control shifts in tax load or to bring about the relative tax levels that are deemed to be appropriate for different types of businesses.

- **That a specific review be done in regard to the business assessment relative to other assessments by the Saskatchewan Assessment Management Agency.**

  It is the responsibility of the Saskatchewan Assessment Agency to arrive at the method of determining valuations for all classifications of property. It is also the responsibility of S.A.M.A. to arrive at the relative weightings to be applied to those valuations in arriving at assessed values. These relative weightings determine the allocation of the tax load among all categories of business and real property. The Commission believes that a review of the business assessments be undertaken not in isolation, but in conjunction with the review of all other weightings that is done as an integral part of the process of arriving at new assessment manuals.

  It is also the responsibility of S.A.M.A. to decide what adjustments in current business assessments should be made prior to the commencement of the new round of general reassessments.

- **That municipalities not have the authority to implement across-the-board abatements of business or other taxes.**

  The ability to implement across-the-board abatements of business taxes enables municipalities to enter into general tax competition, and the Commission is of the belief that this is counter-productive and not in the interests of local governments or the communities in general.

  Apart from the obvious shifts of the tax load which such abatements produce within individual municipalities, it also causes shifts of the tax load onto the taxpayers of the other municipalities for school and hospital taxes.

CHAPTER FIVE

ASSESSMENT OF IMPROVEMENTS IN RURAL MUNICIPALITIES

In this chapter, the Commission outlines some issues relating to the assessment and taxation of certain improvements in rural municipalities and describes the study initiated by the Commission in this regard.

1. CURRENT PRACTICES

There are a number of rules governing the assessment and taxation of properties in a rural municipality, and there are numerous types of exemptions or partial exemptions.

All buildings, including residences, on land where farming is the occupant's chief source of income, are exempt from taxation. Regardless of the owner's chief source of income, all non-residential improvements used solely for farming purposes are also exempt from taxation. This exemption applies to improvements used in intensive livestock operations, regardless of their size, and to greenhouses. All vacant farmsteads are also exempt.

Residences occupied by persons whose chief source of income is other than farming, and buildings not used solely for farming where the owner's chief source of income is other than farming, are taxable. However, where buildings are taxable, the assessed value of land owned by that same owner and which is used for farming purposes, is deducted from the assessment of the buildings to arrive at a net taxable assessment. In many cases, this deduction is sufficient to reduce the taxable assessment to zero.

2. ISSUES

There are numerous opinions in regard to the assessment and taxation of improvements in rural areas:

- Income as a Criterion

  Whether a residence located in a rural municipality is taxed is dependent on the chief source of income of the person occupying the home. Some agree or disagree with this concept in principle. Others disagree with the concept on the grounds that it places an unfair onus and a practical administrative difficulty on the local council to arrive at judgments on the nature of the income earned by residents of the municipality. Others point out the misunderstandings and hard feelings created in a community when people are affected by a criterion based on income.

- Intensive Livestock Operations

  Some argue that agricultural operations such as dairies, feed lots, piggeries, or chicken or turkey farms which may have a large investment in improvements but a small investment in land, have an unfair tax advantage because of the exemption of those improvements. The critics suggest that a grain farmer may have an overall investment which is no higher but, because his investment is in land rather than improvements, he must pay substantially more in taxes.

- Taxation v.s. Economic Development

  Some suggest that all or certain types of rural improvements should, in principle, be taxed but that, on balance, it would discourage new development or continued operation of the enterprises affected (i.e., cattle finishing, dairies, hog farms, chicken or turkey ranches), and that it would be contrary to the objective of promoting economic diversification.

- Amount of Land

  Some point out that as long as a person owns sufficient amounts of land to go along with the rural residence, the residence is, in effect, exempt from taxation, regardless of where the person earns his or her income. They suggest that this unfairly benefits the wealthy person relative to the less wealthy person.

- Rural Residential

  Some persons who live in a rural municipality, but who earn their living from sources other than farming, believe that it is unfair for them to have their residence and other buildings assessed and taxed, while the residence and buildings of their farmer neighbours are tax exempt. On the other hand, some believe that non-farm rural residents do not pay a fair share of taxes.

3. OPTIONS

A number of options have been suggested in regard to the assessment and taxation of improvements in rural municipalities:

- Assess and Tax All Improvements

  Some would argue that all improvements should be assessed and taxed just like they are in urban municipalities. They argue that by ignoring or exempting various categories of improvements, the value of total real property assets is understated and there is unfairness in the distribution of property taxes.

- Assess and Tax All Improvements with Compensating Reductions in the Assessment of Farmland

  Some believe that, in principle, all improvements should be assessed and taxed, but point out that unless this were accompanied by other adjustments, farmers would experience a large increase in their total property taxes. Within a municipality, farmers would bear an increase in their share of the tax load relative to non-farmer property taxpayers. Rural municipalities would also experience an increase in their total assessment relative to urban municipalities, resulting in a shift of school and hospital taxation from urban to rural property taxpayers.

  Accordingly, some suggest that all improvements should be assessed and taxed, but that the assessment of farmland should be reduced so that, on a net basis, farmers as a whole would not have an overall increase in their assessment or taxation.

- Assess and Tax All Improvements and Deduct Assessment of Farmland

  Some suggest that all improvements should be assessed, but the assessed value of farmland associated with the improvements in question should be deducted from the assessment of the improvements. They suggest that the deductions would mean that bona fide farmers would, in effect, end up having an exemption for their improvements, while others would not. They suggest that this avoids the use of source of income as a means of determining the taxation status of property.

- Assess and Tax All Rural Residences, but Maintain the Exemption for Other Agricultural Improvements

  Some believe that only the residence and not other improvements should be assessed and taxed. Within this option, there are three approaches that could be taken:

  — The residences could be assessed and taxed with no compensating adjustments.

  — The residences could be assessed and taxed, but the assessment of farmland could be reduced so that, on a net basis, farmers as a whole would not have an overall increase in their assessment or taxation.

  — The residence could be assessed, but the assessed value of the farmland associated with the residence would be deducted so as to provide a de facto exemption for the bona fide farmer.

- Maintain Present Practices

  Others believe that, on balance, it is preferable to maintain current practices.

In evaluating the options, the Commission believes that there are at least three considerations to be taken into account:

- Shift in Taxation

  Different rules in regard to assessment and taxation bring about a different distribution of the tax load among those who pay property taxes. Care must be taken to identify the categories of taxpayers who would experience increases or decreases in taxation, and to evaluate the appropriateness of those shifts.

- Practicalities of Assessment

  Regardless of the theoretical basis for the assessment of certain categories of improvements, practical considerations may suggest otherwise. For example, some would suggest that granaries are built, torn down, or moved so frequently and that there are so many different arrangements for their ownership, that to endeavour to assess and tax them would be administratively impractical. Whatever decisions are made, they must be capable of being administered in a practical and fair manner.

- Abandoned or Low Value Buildings

  It has been suggested that the assessment of buildings with very low value, such as abandoned farmsteads and barns no longer used for livestock, would create a financial incentive for such buildings to be torn down, and that this would be a detrimental development. In other words, the implications of certain options must be carefully examined.

4. THE STUDY

The Commission undertook two initiatives to permit the various options to be examined and evaluated:

- A data base was developed.
- A computer-based methodology for evaluating the options was developed.

One of the problems involved in an analysis of options is that statistical data on the value of various categories of rural improvements are not currently available. Although there is a formal requirement that all properties, including rural improvements, be assessed regardless of whether or not they are exempt from taxation, in practice the exempt properties are largely ignored. This is understandable, considering the limited resources available for assessment and the obvious priority for appraising those properties which will actually be subject to taxation.

The absence of such data is a serious impediment in the analysis of options and, accordingly, the Commission developed a data base.

In order to obtain the necessary information on the value of various categories of rural improvements, the Commission engaged the services of a professional appraiser. The Commission sought and received the co-operation and assistance of the Saskatchewan Association of Rural Municipalities, the Department of Rural Development, and the Saskatchewan Assessment Authority in developing the study and in selecting the study areas. The Commission also sought and received the agreement of the rural municipal councils in the study areas before any field work was started. The Commission wants to express its appreciation to these councils and organizations.

A representative sample of seven townships was selected from across rural Saskatchewan. The seven townships represented the soils of different productivity in the major soil zones, and the different levels of concentration of rural residential, industrial, and intensive agricultural development.

Valuing these improvements was intended only for purposes of this study, and not for a reassessment of individual properties. As a consequence, it was not necessary to conduct detailed inspections of residences and other buildings. The appraiser, in consultation with the Saskatchewan Assessment Authority, developed a field manual which provided appraised values for various categories of rural improvements on a simplified basis. This field manual, rather than the full rural assessment manual, was used to value the improvements in these selected townships.

Within the 7 townships, the number of landowners varied considerably (from 21 to 141), due to the relative size and nature of farming operations. In total, the improvements of 506 landowners were studied.

For each property, the Commission collected information on the legal description, the name of the registered owner (to enable properties to be grouped by owner), and the number, type, size, materials, and age or condition of buildings. Based on the information about the buildings, assessed values were obtained from the field manual.

The Commission contracted the development of a computer-based methodology to record the data from the field sheets and to enable the implications of each option to be analyzed.

5. CONCLUSIONS

The Commission concluded that the income criterion should be discontinued for determining whether a residence located in a rural municipality should be taxed, in favour of an administratively simpler and less subjective criterion.

The Commission's mandate expired before the options could be analyzed sufficiently to enable the Commission to reach conclusions. The Commission could have requested an extension to its mandate to enable it to complete the study. However, the Commission believes that having developed the data base and the computer methodology for its analysis, under the circumstances, it would be preferable to provide the Saskatchewan Assessment Management Agency with the data base and the computer programs. S.A.M.A. would then be in a position to undertake the remainder of the analysis.

The Commission recommends that the Saskatchewan Assessment Management Agency complete the analysis of various options for the assessment and taxation of improvements in rural municipalities using the data base and the computer methodology developed by the Commission.

The Commission recommends that the Saskatchewan Assessment Management Agency share the data base and its analysis of various options with the Saskatchewan Association of Rural Municipalities and the Department of Rural Development. The Commission also recommends that S.A.M.A. be prepared to analyze options identified by S.A.R.M. and the Department of Rural Development.

The Commission undertook the development of the data base in co-operation with S.A.R.M. and the Department of Rural Development, and indicated that it would be prepared to share information and analyze options they may wish to advance.Under the circumstances, the Commission believes that S.A.M.A. would be the appropriate body to follow through with those undertakings.

The Commission recommends that no changes be made in the current provisions until the options have

been explored using the data base and methodology developed by the Commission.

The Commission is aware that a review of **The Rural Municipality Act** is under way and that the assessment and taxation of improvements in rural municipalities is part of that review. The Commission believes that the implications of various options need to be analyzed before they are implemented.

The Commission recommends that decisions be made concerning various options for the assessment and taxation of rural improvements before the next round of assessments is started.

CHAPTER SIX

MARKET VALUE APPROACH TO ASSESSMENT

1. BACKGROUND

During the regional meetings held in the Fall of 1984, the Commission heard a number of concerns expressed about the basis for determining assessed values of property. Some people suggested that a market value approach should be utilized. Others suggested that the assessment manuals, which are based on a "modified" market value approach, do not accurately reflect market values.

The Commission undertook a study of the relationship or correlation between the market value of property and its assessed and appraised values to determine whether or not market values can be used as a means of checking the validity of the assessment manuals and in assisting in the development of new manuals.

The Commission studied separately the relationship of sales values to assessed and appraised values of farmland and urban residential and commercial properties. Both studies used Revenue Canada information on sales of property in 1981 and 1982, and assessments based on the new (1976) assessment manuals.

2. RURAL FARMLAND PROPERTIES

The Commission analyzed the relationship or correlation between the assessed value of quarter sections of farmland in different soil zones to the 1981 and 1982 sales prices of the same farmland as recorded by Revenue Canada.

In total, 3,531 quarter sections of farmland were analyzed from 27 different soil associations within the three main soil colour zones (brown, dark brown, and black).

Only those sales of whole quarter sections with at least 100 cultivated acres were used in the study. An attempt was made to minimize non "arms-length" transactions from the analysis by excluding sales which amounted to less than $125 per acre or more than $1,100 per acre.

There appears to be a poor correlation between assessed value and the market value of farmland.[1]

The best coefficient of correlation was 0.543 for the Brown sandy soils of the Birsay soil association.[2]

There is substantial variation in the relationship between market value and assessed value of farmland. The study showed the coefficient of correlation ranged from 0.543 to -.031.

The ratio of market values to assessed values varies significantly by soil colour, texture, and soil association.In the Brown soils, the weighted average ratio was 17.8 and the range was from 15.3 to 22.9. In other words, farmland sold on average, for 17.8 times the assessed value of farmland from the brown soil zone. For Dark Brown soils, the weighted average ratio was 13.5 and the range was from 9.7 to 16.6. For the Black soils, the weighted average ratio was 10.5 and the range was from 8.1 to 14.5. Overall, the ratio of market value to assessed value was 12.2.

3. URBAN PROPERTIES

The study of urban properties is based on the residential property sales in 1981 and 1982 for a sample of 100 communities.

The study does not include Regina, Saskatoon, Moose Jaw or Prince Albert because the assessment data for these centres had not yet been entered into the Saskatchewan Assessment Authority's computer system. Although the study was designed to analyze residential and various categories of commercial properties, the exclusion of the four largest cities and the lack of sufficient sales of commercial properties in smaller centres prevented the Commission from analyzing the relationship between market values and various categories of commercial property.

A total of 891 residential properties were included in the study. For purposes of the study, the properties from different municipalities were grouped by population.

There is a relatively high correlation between the market value of residential properties and their appraised value.[3]

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[1] See Appendix II-22.

[2] A coefficient of correlation of 1.0 would mean that sales prices and assessment values are perfectly proportional to one another. A coefficient of correlation of 0.0 would mean that there is no relationship at all between sales prices and assessment values.

The best coefficient of correlation was 0.95 for municipalities between 4,401 and 4,750 population.

The coefficients of correlation ranged from a low of 0.78 to a high of 0.95.

The ratio of market values to appraised values ranged from 2.5 to 3.5. This means that, in 1981, an urban residential property would have sold for between 2.5 to 3.5 times the appraised value of the property. By comparison, rural farmland sold for between 4.9 and 13.8 times the appraised value.[4]

4. OBSERVATIONS/SUMMARY

A. Rural Farmland Properties

The Commission makes the following observations in regard to the relationship between sales and assessed value of farmland:

- There are factors that determine the net productivity (or profitability) of farmland that are not taken into account in the current productivity-based assessment system.

  In its report, **Property Assessments in Saskatchewan,** the Commission noted that the current system is geared to measure what might be called "gross productivity" as opposed to "net productivity". That is, the current system appears to measure very well the ability of the respective soils to generate physical production, but it tends to inadequately reflect the relative input costs associated with achieving that production among the different types of soils.

  Thus, some of the lack of correlation between market values and assessed values is probably accounted for by imperfect measures of the ability of different soils to generate profit.

- There are factors affecting sales prices of land, other than the productivity or profitability of the land.

  For example, in all probability, some non "arms-length" transactions are involved in the sample in spite of excluding transactions above or below certain rates. There may be different percentages of sales accounted for by sales or transfers between family members in different areas. Variations in expectations in regard to future farming conditions would play some role in generating different sales values in regard to a given quality of land. The proximity of lands to other external markets (those in neighbouring provinces or states) would also have an effect.

- The intent behind the current system of assessing land is to measure its ability to generate profit. The fact that assessed values and market values do not correlate well is not necessarily a valid criticism of the assessment system. The assessment system may indeed be a very good means of measuring the profitability of the land, while a number of factors, extraneous to profitability, may be affecting the sale prices of land.

- **Additional study is warranted in regard to the assessment of farmland, particularly the use of crop yield data from the Saskatchewan Crop Insurance Corporation and input costs in the various soil zones, as part of the development of a new rural assessment manual.**

B. Urban Properties

In regard to urban land assessment, the Commission noted in its September, 1985 report that market values were used in arriving at land appraisals only in the larger cities. That report also stated the Commission's belief that more market analysis of municipalities of various sizes would be desirable and useful in determining land values. The findings of the urban market value study indicate that the relationship or correlation between residential market values and assessed values is strong. However, the ratio of sales values to appraised values is lower in smaller population centres than it is in larger centres. This finding may reflect a larger increase in market value of residential property in larger centres compared to smaller centres between the base year values used in the assessment manual and 1981-82.

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[3] See Appendix II-23.

[4] Note the difference between appraised and assessed value. The appraised value of urban property is the land assessment, plus 2 times the building assessment, since only 50% of the building's appraised value is used for assessment purposes.

Appraised value of farmland is defined as 1.67 times the assessed value, since only 60% of the appraised value of farmland is used for assessment purposes.

The Commission believes analysis of market values will be helpful in designing the schedule of urban land values for the next urban assessment manual. The Commission recommends that the study should be extended to the four largest urban municipalities and to include various categories of commercial property as soon as the assessment data are entered into the Assessment Authority's computer system.

PART III

REVENUE SHARING AND THE SCHOOL FOUNDATION SYSTEM

In Part III, the Commission examines the provincial-municipal revenue sharing program and the school foundation grant system. These are the mechanisms under which provincial funds are transferred to municipalities and school divisions respectively to assist them with the financing of their operating expenditures.

The financing of operating expenditures for hospital boards and library boards are not dealt with in this Part, but are dealt with separately in Parts V and VI, respectively.

In Chapter One, the Commission examines the basic concept of revenue sharing and how it operates.

In Chapter Two and Chapter Three, the Commission examines the mechanisms that are used to distribute revenue sharing monies among rural and urban municipalities, respectively.

In Chapter Four, the Commission deals with the school foundation formula which is used to allocate provincial grants among school divisions.

CHAPTER ONE

THE REVENUE SHARING CONCEPT AND THE ESCALATOR

1. THE CONCEPT OF REVENUE SHARING

A. The General Concept

Under revenue sharing, a major amount of the overall funding which the provincial government provides to municipalities is determined by a formula which is intended to reflect the performance of the provincial economy, as measured by the growth in selected provincial tax bases.

The provincial government first establishes a pool of monies which it believes is of an appropriate magnitude for distribution to municipalities. In Saskatchewan, separate pools were established for urban, rural and northern municipalities. Once the pools are established, the sizes of the pools change from year to year in accordance with the operation of an "escalator" or "escalator index".

The determination of the size of the revenue sharing pools is separate and distinct from the question of the mechanisms which are used to distribute the monies in the pools among individual municipalities. These latter mechanisms are referred to as "distribution formulas", and are dealt with in subsequent chapters.

Revenue sharing is quite different from regular grant programs. The amount to be paid by the provincial government under various grant programs is determined by the Cabinet each year, through the regular budgetary and decision-making processes. The government is able to exercise full discretion and judgment in regard to the amount of monies to be paid in grants.

On the other hand, once the escalator formula has been placed in legislation, the size of the revenue sharing pool is out of the hands of the provincial government, except through legislative amendment. The formula, not discretionary decisions by the provincial government, determines the size of the pools from year to year.

Under the terms of the Saskatchewan revenue sharing legislation, the provincial government can add monies to the revenue sharing pools over and above the amounts generated by the escalator formula. However, the only way that a lower amount of funds than that which is produced by the escalator formula can be brought about is by an amendment to the statute by the Legislative Assembly.

The revenue sharing program accounts for the vast majority of operating assistance provided to municipalities by the provincial government. Capital transfers are dealt with outside the revenue sharing program.

B. Objectives

The objectives behind revenue sharing are:

- To provide another major source of revenue to supplement the property tax.

  The property tax has been deemed by various provincial governments to be insufficient to finance all of the expenditures of local government. Accordingly, the provincial government uses its broader tax base to transfer funds to local governments and supplement the revenues available from the property tax.

- To provide a source of revenue that would allow municipalities to share in the broader tax base that comes with economic growth.

  The property tax base, which provides the largest single source of revenue for municipalities, increases each year as new properties, buildings, and businesses are added to the assessment and tax rolls, and as improvements are made to existing buildings.However, this real growth in assessment can be much less than the growth in the provincial economy or in provincial tax bases, such as the income and sales taxes bases, which are more sensitive to inflation or increased economic activity. As a result, when municipal governments want to increase services or costs increase for existing services, the slow growth in the property tax base means either increased mill rates, reduced services, or demands for provincial financial assistance. Periodically, when a general reassessment is completed, municipalities have a large increase in their tax base, and they are able to reduce mill rates. Between general reassessments, however, the bulk of increases in property tax revenues must be achieved by increasing mill rates.

The escalator index concept used in revenue sharing provides increases in the aggregate amount of funds transferred to municipalities, based on the performance of the provincial economy, which almost always exceeds the overall growth in assessment. As a result, municipal revenues are more sensitive to economic growth and municipalities are in a better position to respond to rising costs or to provide increased services.

- To provide an increase in the level of independence of municipalities.

  Regular grants bring about a degree of subservience by local governments to the provincial government because the provincial government makes decisions each year on the level of grants to be paid. Under revenue sharing, on the other hand, municipal governments, in effect, share the broader tax base of the provincial government and are not dependent on year-to-year judgments and decisions by the provincial government.

- To promote a partnership between the provincial and municipal governments in the provision of public services.

  While revenue sharing is intended to assist in meeting the long-term needs of municipalities, it is not intended to respond to the expenditure needs of local governments in a particular year. Instead, under the escalator index feature of revenue sharing, municipalities agree to accept the responsibility for dealing with the consequences of whatever year-to-year changes in aggregate payments the escalator formula produces. If the yield from revenue sharing does not keep pace with projected expenditure requirements in a particular year, then municipalities must either reduce expenditures to match revenues, increase their revenues from local sources or draw upon previously established reserves. If the yield from revenue sharing in a particular year exceeds projected expenditure requirements, then municipalities must decide either to increase expenditures, reduce local revenues, or set aside funds in reserves as a contingency against a possible future time, when revenues will fall short of projected expenditure requirements.

  By being prepared to accept the implications of changes in revenues arising from the performance of the economy, rather than expecting the provincial government to meet the annual needs of municipalities regardless of general economic conditions and its own financial circumstances, municipalities accept additional fiscal responsibility and the relationship has more of the characteristics of a partnership with the provincial government in providing services to the public.

The objectives of grant programs, on the other hand, are, or can be quite different. For example, grants to school divisions may have the objective of maintaining a certain provincial share of total school expenditures, accommodating or promoting a particular change in expenditures, or making it possible for school divisions to balance their budgets at a particular average mill rate. The judgments and decisions on the level of grants to be paid are made each year to match specific circumstances and the priorities of the provincial government for that year.

C. The Escalator

The escalator index specified in the revenue sharing legislation is a three year moving average of the year-over-year changes in the following four major provincial tax bases:[1]

- Personal Income Tax Base

  This is defined as the amount of federal basic tax allocated to Saskatchewan.
- Corporate Income Tax Base

  This is defined as the amount of corporate taxable income allocated to Saskatchewan.
- Education and Health Tax Base

  This is defined as the value of all retail sales in Saskatchewan.
- Gasoline Tax Base

  This is defined as the gross volume of all fuel sold in Saskatchewan.

In determining the value of the escalator in a given year, the year-over-year percentage change for each of the previous three years is calculated for each of the four tax bases. These percentage changes are then averaged for each tax base and these averages are summed to yield the value of the escalator index. The escalator is expressed as a percentage increase or decrease. The size of a revenue sharing pool is in a particular year the previous year's pool multiplied by this percentage change.[2]

The size of the revenue sharing pools for rural municipalities, urban municipalities and northern municipalities are all different, and there are different formulas for distributing the monies in the pools among each type of municipality. However, the same escalator index applies to all three types of municipalities.

Although **The Provincial-Municipal Revenue Sharing Act** specifies that additional tax bases may be included in the calculation of the escalator index, only these four tax bases have been used to date.

D. Tax Bases

The escalator index reflects changes in the tax bases, rather than tax revenue received by the provincial government. The amount of taxes received by the provincial government is affected not only by changes in the tax base, but also by changes in the rate of taxation applied to the tax base. It is considered inappropriate for decisions by the provincial government in regard to rates of taxation to have an impact on the size of the revenue sharing pools. Accordingly, tax bases, rather than tax revenues received by the provincial government are used in the escalator index.

2. BACKGROUND

A. Establishment of Program

The revenue sharing programs for urban and rural municipalities were introduced in 1978-79 after extensive consultations between the provincial government and the Saskatchewan Association of Rural Municipalities (S.A.R.M.) and the Saskatchewan Urban Municipalities Association (S.U.M.A.). These consultations resulted in a general agreement regarding the broad nature of the program, including the formulas which were to be used to allocate the respective revenue sharing pools among the individual municipalities.

The provincial government established the revenue sharing pools in two stages. In 1978-79, the pools were initially established by the consolidation of a number of separate grant programs, along with some additional monies. A major addition to the pools was also made in 1979-80.

In 1980-81, the provincial government introduced the escalator index.

In 1982-83, the revenue sharing program was extended to northern municipalities by the creation of a separate pool for those municipalities.

B. History of Escalator

The escalator brought about an increase of 7.76% in the revenue sharing pools when it was first introduced in 1980-81, and an increase of 10.20% in 1981-82.

In 1982-83, the escalator would have produced an increase of 8.33%, but the provincial government added monies to the pools to bring about increases of 11.5%.

Following the elimination of the fuel tax in 1982, the petroleum industry discontinued the submission of information to the provincial government on the volume of various types of fuel sold in the province, thereby eliminating one of the sources of data used to calculate the escalator index.

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[1] A description of how the escalator was or was not used each year, and an analysis of alternative escalators is provided later in this chapter.

[2] Appendix III-1 provides a description of the calculations used in the 1982-83 escalator index.

The use of the escalator index was subsequently suspended.

In 1983-84, the escalator would have brought about an increase of 5.59%, but instead the provincial government added 7.0% to the revenue sharing pools. An increase of 5.0% was legislated in 1984-85, and there was no increase provided in 1985-86.

Subsequent to the suspension of the use of the escalator index, the provincial government initiated discussions with S.U.M.A. and S.A.R.M. to review the revenue sharing program, including the important question of a new escalator index. At the time this report was prepared, no decisions had been reached in regard to a new escalator.

C. Other Provinces

The majority of provinces have some form of "revenue sharing" transfers to municipalities based on a variety of different escalator indices.

British Columbia

- Total funding is based on the value of 1 percentage point of personal income tax, 1 percentage point of corporate income tax, and 6 percent of provincial renewable and non-renewable resource and sales tax revenues.
- Annual changes are based on percentage changes in the value of the personal and corporate income tax bases, the sales tax base, and resource revenues.

Manitoba

- Total funding is based on the value of 2.2 percentage points of personal income tax and 1 percentage point of corporate income tax.
- Annual changes are based on percentage changes in the value of the personal and corporate income tax bases.

Ontario

- Total funding and annual percentage changes are determined by annual provincial Cabinet decision.
- This is simply another grant program and not a revenue sharing program as the concept has been defined in this report.

New Brunswick

- Annual percentage changes are tied to the forecast percentage change in net provincial revenues, except for 1984 and 1985, when the changes were set by the provincial Cabinet, as part of a provincial restraint exercise.

Prince Edward Island

- Annual percentage changes are tied to the percentage change in net provincial revenue defined as the current fiscal year revenue minus investment and non-continuing or special purpose transfers from the federal government.

Nova Scotia

- Annual percentage changes are tied to the percentage change in gross provincial revenue.

Three Atlantic provinces tie the growth of transfer payments to the percentage change in either gross or net provincial revenue. British Columbia, Manitoba and Saskatchewan tie the growth of transfer payments to the percentage change in various tax bases, although both B.C. and Manitoba also use the escalator index to determine the total amount of funding by specifying the value of a number of tax points.

Some provinces besides Saskatchewan have suspended or overridden their escalator indices as a result of prevailing economic or fiscal circumstances. For example, Nova Scotia reduced the level of provincial transfers in 1983-84 by almost 20% as part of a restraint exercise. As noted earlier, New Brunswick suspended its escalator index formula and specified the percentage changes in aggregate funding for two years.

3. EVALUATION OF REVENUE SHARING

There are two main issues in regard to provincial-municipal revenue sharing:

- The Basic Concept

  The basic question arises as to whether revenue sharing is an appropriate basis upon which to determine the year to year changes in the aggregate level of provincial-municipal fiscal transfers.

- The Escalator

  If it is concluded that the revenue sharing concept is sound, the question still arises as to what particular escalator should be used to determine the year-to-year changes in the size of the revenue sharing pools.

There are a number of issues pertaining to the mechanisms that are used to determine the distribution of the monies in the revenue sharing pools to individual municipalities. These are dealt with in Chapters Two and Three.

A. The Basic Concept

Those who do not support the revenue sharing concept use the following arguments:

- Provincial decision-making is restricted and the ability of the provincial government to adjust its priorities and budgetary proposals to meet its current economic and political priorities is unnecessarily constrained by having a formula determine the level of transfer payment to any type of local government.
- The accountability of the provincial government to its electorate is lessened by having a portion of provincial expenditures determined by a formula, rather than by elected officials.
- Annual budgetary increases for major third party grants have been at least as good, if not better, than the increases under the revenue sharing escalator index. To the extent that grant programs have received larger increases than revenue sharing, this demonstrates the comparative effectiveness of lobbying and dealing with changing circumstances and economic conditions through the normal political process.
- The escalator is based on the performance of particular tax bases over a three year period in the past. Because of this lagged effect of the escalator index, transfers to municipalities can become out of synchronization with the provincial government's ability to finance the transfers and, also, with municipal governments' need for financial support.
- Revenue sharing produces effects which are opposite to those which are often used by senior governments to influence the aggregate level of economic activity. Sometimes federal and provincial governments will increase their transfer payments to local governments at the very time when their own revenues may be lagging, as a means of stimulating employment and economic growth. Winter works programs are an example of this type of counter-cyclical programming. In times when the economy and revenues are more buoyant, such programs tend to be withdrawn.

  Revenue sharing is not intended as a counter-cyclical program. Under revenue sharing, the aggregate level of payments to municipalities increase when the economy is buoyant and provide a smaller increase or possibly a decrease in transfers when the economy slows down or stagnates. As a result, revenue sharing has the opposite effect of counter-cyclical financing.
- From the perspective of municipal governments and local taxpayers, a smaller increase or a decrease in the aggregate revenue sharing transfer occurs when the payment is needed most, and yet the aggregate amount of funding is increased when it is needed least. During buoyant economic circumstances, there is generally an enhanced ability to pay property taxes as people's incomes are generally higher. However, this is also the time when revenue sharing payments are at their highest. In other words, revenue sharing payments help to keep down property taxes at the very time when people can best afford to pay them. On the other hand, when the economy is sluggish, people tend to have a diminished capability to pay their property taxes, and this is when revenue sharing payments will be low and there will be upward pressure or mill rates.

Those who favour revenue sharing use the following arguments:

- Revenue sharing elevates the status of municipalities from a position of dependence and subservience to the provincial government to a position of partnership with the provincial government in providing public services. A partnership is a more effective environment within which to provide services.

- The use of an escalator index enhances the predictability of provincial transfers, thereby assisting municipalities in their planning and budgeting processes. Regular grant programs, on the other hand, are subject to the annual evaluations of the provincial government and can be affected by year-to-year changes in the provincial government's priorities.

- There is greater security in revenue sharing. Grant programs are subject to policy changes and can be reduced or even eliminated as a policy decision. On the other hand, once the escalator has been incorporated in legislation, it takes an act of the Legislative Assembly to change it.

- The fact that the amount of funds available each year is determined by a formula outside of direct provincial budgetary control means that municipalities and their organizations require less effort for lobbying provincial politicians and officials to ensure the continuation of programs and appropriate funding levels.

The Commission agrees in general with the above-noted arguments in support of revenue sharing. The Commission also acknowledges the arguments against revenue sharing, but notes the following:

- A review of the budgetary estimates of the provincial government shows that only 3.4% of its total expenditures are accounted for by the revenue sharing programs. Therefore, while revenue sharing does constrain the amount of budgetary discretion which can be exercised by the provincial government, the degree of such overall constraint is relatively small.

- While the current escalator has a lagged effect, alternative escalators with less lag can be developed if this is desired. Also, a lag does have the effect of making revenue sharing more counter-cyclical than would be the case if there were no lag.

- The Commission has recommended an income-related property tax credit to compensate for the insensitivity of the property tax to changes in ability to pay and for the regressivity of the property tax for those with low incomes. This is a more selective and effective way of assisting those who need help in paying their property taxes than can be achieved through revamping the revenue sharing program, or the establishment of new objectives for revenue sharing.

In summary, the Commission supports the revenue sharing concept and recommends that it be continued as the major means by which fiscal transfers for operating costs are made to municipalities from the tax bases used by the provincial government.

B. The Current Escalator

The Commission concluded above that revenue sharing be continued in Saskatchewan. If it is to continue, there must be an escalator formula. Without an escalator, revenue sharing ceases to be revenue sharing. The question then arises as to what would be an appropriate escalator.

1) Criteria

In developing an escalator index, it is helpful to specify the criteria or desirable features against which various proposals can be measured. The Commission believes the following are appropriate criteria for an escalator.

- Responsiveness

  An escalator should be sufficiently responsive to reflect changes in provincial economic performance.

- Predictability

  A reasonable degree of predictability is desirable for budgeting and planning purposes for both the provincial government and municipal governments.

- Avoidance of Provincial Tax Policy Decisions

  Decisions by the provincial government on its own tax policy should have little or no impact on the escalator and, hence, the amount to be transferred to municipal government.

- Stability

  Severe fluctuations in the index should be minimal, since municipal governments have a limited flexibility to adjust their fiscal positions.

- Simplicity

  The index should be as simple and

straightforward as possible, without compromising the other criteria.

2) Evaluation

In terms of the foregoing criteria, the Commission is of the view that the current escalator index fares moderately well:

- Responsiveness

  The escalator index has tended to reflect, to some degree, the provincial economic performance, although this response is subject to two factors: first, the escalator index lags behind or follows the changes in the economy because data used in calculating the escalator are from one to four years old and, second, the three year moving average tends to smooth out the peaks and troughs of annual changes so that the escalator tends not to generate extremely high or low values, due to fluctuations in the economy.

  The following table shows a comparison between the percentage changes in the provincial economy as measured by the Gross Domestic Product in current dollars[3], the escalator index, and the actual increases in the revenue sharing pools.

Year	Actual Increase	Escalator Index	Gross Domestic Product
	(% change from previous year)		
1978	-	-	14.0%
1979	-	-	15.0
1980	7.8%	7.8%	18.4
1981	10.2	10.2	14.1
1982	11.5	8.3	1.3
1983	7.0	5.6	6.7
1984	5.0	6.1*	6.9
1985	0.0	2.6*	5.5

*For 1984 and 1985, a different definition of the fuel tax base has been used to calculate the escalator index.

  The table shows that provincial economic performance peaked in 1980, after several years of high growth, declined to a low point in 1982, and has recorded modest growth since then. The escalator index peaked one year after the economy, and also declined to its low point one year after the provincial low point. As shown in the table, the escalator index never reached the same high or low percentage change as the overall provincial economy.

- Predictability

  The current escalator index is reasonably predictable, once the three year moving average provision is fully implemented, because the majority of the data are known before hand and the effects of unknown year-over-year change in any one tax base represent only one-twelfth of the impact on the total value of the escalator. One drawback is that the sources of recent data are not widely accessible, especially for the income tax bases and, therefore, the ability of individual municipal governments to predict the value of the escalator is impaired accordingly.While predicting the increase in the overall pool is difficult for an individual municipality, it is also difficult for them to predict their individual allocations, because the escalator is applied only to the aggregate amount of funds transferred and the distributions to individual municipalities are accomplished through separate formulas.

  In order for the current escalator to be reasonably predictable for individual municipalities, additional information currently available only to the provincial government would have to be shared with municipalities or their organizations.

- Avoidance of Provincial Tax Policy Decisions

  The use of the tax bases to calculate the escalator index does avoid having the escalator index influenced by tax policy decisions made by the provincial government. However, the provincial personal and corporate income tax bases are subject to some federal tax policy decisions regarding the calculation of taxable income.

- Stability

  The three year moving average

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[3] Saskatchewan Bureau of Statistics, Government of Saskatchewan.

feature adds stability to the escalator index, even though the year-over-year fluctuations in some tax bases, particularly the corporate tax base, have been severe. However, the moving average does detract somewhat from the concept of shared responsibility. For example, the averaging provision may require an increase of 5% in the revenue sharing pools in a particular year when the provincial revenues are projected to increase only 3% from the tax bases in question. The provincial government must make up the 2% point difference between the required payout and the revenues it will receive, either by incurring a deficit, relying more heavily on other revenues, or by reducing other expenditures.

Over the long-term, the effects of the three year moving average will even out in current dollar terms. However, the averaging provision puts more responsibility onto the provincial government and less onto municipal government in terms of accommodating fluctuations in revenue. However, the moving average appears to strike a reasonable balance between the ideal and the practical realities of the need for some degree of stability.

- Simplicity

  The current escalator index does not require any complex calculations, and it is technically relatively straightforward. However, the escalator index is not well understood and it is perceived by most municipal officials to be complicated.

C. Alternative Escalators

A number of alternatives to the current escalator have been suggested. They are described and evaluated below, based on the criteria noted earlier. Appendix III-2 summarizes the effect of these alternatives if they had been applied to the 1980-81 to 1986-87 period.

1) Total Provincial Revenue

This option would tie the annual percentage change in the aggregate revenue sharing transfers to the annual change in the budget estimates of total provincial revenue for both the Consolidated and Heritage Funds. This basic option is used in Nova Scotia. In New Brunswick and Prince Edward Island, net provincial revenues (gross provincial revenues minus investment income and special purpose transfers from the federal government) are used. A sub-option would be to have a three year moving average which would use some actual and budgetary estimates of total revenues.

- Advantages
  - — The method would be simple to calculate and readily understandable by provincial and local government officials and the general public.
  - — The sub-option of a three year moving average would tend to reduce the fluctuations in annual revenue changes and add some stability to the escalator, but it would also add somewhat to its complexity.
  - — It would respond reasonably well to changes in provincial economic performance because of the broad range of revenue sources that constitute the total provincial revenue base.
- Disadvantages
  - — This method would be subject to fluctuations in provincial resource revenues.
  - — It would tie the escalator index concept to provincial tax policy decisions.
  - — It would include federal transfer payments for cost-shared services such as the social assistance plan which could be considered as a flow- through revenue tied to provincial expenditures for social assistance.
  - — This method would generally not be predictable because of the possibility of changing tax rates, tax initiatives, and resource revenues.

2) Total Provincial Expenditures

This option would tie the annual

percentage change in the aggregate revenue sharing transfers to the annual percentage change in the budgetary estimates of total provincial expenditures from both the Heritage and Consolidated Funds. A sub-option would be to have a three year moving average of total provincial expenditures which would use both actual and budgetary estimates of expenditures.

- Advantages
  - — The method would be relatively simple to calculate.
  - — This option would ensure transfer payments to municipalities remained at a specified proportion of total provincial expenditures.
  - — The sub-option of using a three year moving average would tend to reduce the fluctuations in total expenditures and add some stability to the escalator.
- Disadvantages
  - — Tying the escalator to provincial expenditures would not be compatible with the concept of revenue sharing which is to share revenues.

    A decision by the provincial government to make additional expenditures or to reduce expenditures should not, in itself, have an impact on revenue sharing payments. A decision to provide drought-relief payments to farmers or to provide a prescription drug plan, for example, has no relationship to the sharing of revenues, and yet it would have the effect of increasing the revenue sharing pool if expenditures were part of the escalator index formula.
  - — This method would not be generally predictable because of the changing provincial economic and fiscal priorities.
  - — This method may not reflect provincial economic performance due to a number of counter-cyclical programs such as drought assistance and winter work programs.

3) 50% Revenues Plus 50% Expenditures

This option has been suggested by some as a compromise between the earlier options of tying the escalator to either total provincial revenues or expenditures. This option would effectively average the annual percentage changes in provincial revenues and expenditures.

The advantages and disadvantages of this option would be similar to the combined comments on the two other options.

4) Dedicated Taxes

This option would involve specifying the yield from one or more points of certain tax(es) to be dedicated or earmarked for transfer to local governments.

This approach uses the dedicated tax or taxes to determine both the total amount of funds to be transferred and the annual growth in funds. British Columbia and Manitoba have used this approach since the start of their respective revenue sharing programs. If Saskatchewan were to adopt this type of an escalator, then the choice of dedicated taxes and the number of tax points would have to yield approximately the same total amount of funding as provided currently.

A combination of the actual tax receipts from 1 Education and Health Tax point, 4 1/2 personal income tax points, and 1 corporate income tax point would yield $123.4 million in 1986-87, compared to the $120.9 million to be distributed this year through the three revenue sharing pools.[4] In 1985-86, the value of these tax points would have yielded $118.0 million compared to the $117.5 million paid out under the three revenue sharing programs. The 1986-87 escalator under this approach would have been 4.62% (the percentage change between $123.4 million in 1986-87 and $118.0 million in 1985-86).

- Advantages
  - — Using the yield from certain dedicated taxes would be simpler to calculate than the current escalator and would be easier to understand and explain.

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[4] For purposes of calculating the escalator, there is a two year lag in tax receipts, i.e. the 1986-87 pool would be based upon 1984-85 tax receipts.
Since 1980-81, the start of the escalator index, the tax receipts from a combination of 1 Education and Health Tax point, 4 1/2 personal income tax points, and 1 corporate income tax point would have yielded $736.9 million versus the $750.3million under the current escalator index, a difference of $13.4 million.

— Depending upon the choice of tax(es), the escalator index may respond reasonably well to changes in the provincial economy.

— Depending upon which one or more taxes are selected, the revenue yield may be more predictable than the current escalator. For example, the yield from the sales tax may be predicted from forecasts of retail sale.

- Disadvantages

— This option would tie the escalator to provincial tax policy decisions as to what is included in the tax base for the selected tax, since broadly defined proxies for the definition of the tax base would no longer be used. However, this approach would **not** tie the escalator to provincial decisions regarding the rate of tax.

— Using the yield from certain dedicated taxes would not be as stable as the current escalator because of the lack of a three year moving average.

— Depending upon which tax(es) are selected, the revenue yield may be as difficult or easy to predict as the current escalator index which uses personal and corporate income tax bases.

5) Three Tax Bases

This option would delete the fuel tax base from the current escalator index and use only the remaining three tax bases: personal income tax base; corporate income tax base; and the Education and Health Tax base.

- Advantages

— This option retains the current concept of the escalator index and avoids further complicating the issue which would occur with any change.

— It retains the stability of a three year moving average.

This option avoids tying the escalator index to provincial tax policy decisions.

- Disadvantages

— The escalator formula would still be perceived to be complicated and would likely continue to be poorly understood by provincial and local officials and the general public.

— Since the fuel tax base was the most stable of the four tax bases, the annual percentage change of the three remaining tax bases will not be as stable as the current escalator.

— The three tax bases will still be relatively difficult to predict from the perspective of individual local governments.

In addition, each of the three bases would be relatively more important in determining the value of the escalator index than under a four tax base escalator and, therefore, any significant year-to-year changes in a tax base would have a larger impact on the overall value of the escalator.

6) Tax Bases and Resource Revenues

This option would add the changes in provincial resource revenues to the three remaining tax bases in the current escalator index. Resource revenues could include revenues from oil, potash, uranium and other minerals.

- Advantages

— This method would respond to changes in the overall provincial economy.

— A three year averaging provision could add some stability to the value of the escalator index.

- Disadvantages

— Adding resource revenues would make the escalator index highly volatile and would provide municipalities with large increases in total transfers when the resource sector was buoyant. However, when resource revenues fall substantially, as they have recently, then municipalities would either tend to lose substantial transfer payments or the provincial government could feel compelled to suspend the formula and thereby shield municipalities from this impact.

  - — This option would tie the escalator index to resource prices and provincial resource tax policy decisions, since most resource tax bases are now expressed in terms of value, rather than volume.
  - — This option would likely be regarded as complicated and would likely not be well understood.

7) Substitute for the Fuel Tax Base

This option would replace the fuel tax base with another tax base and thereby keep the escalator index tied to the performance of four provincial tax bases. Any substitute tax base would have to be of sufficient size and suitability for inclusion in the escalator formula. Some possible replacement tax bases are the tobacco tax base and the corporation capital tax. A sub-option would be to retain the fuel tax base, but to use a new definition and data series for the fuel tax base.

- Advantages
  - — This option would retain the current concept and avoids further complicating the issue with possible formula changes.
  - — It would retain the stability of a three year moving average.
  - — This option would avoid tying the escalator index to provincial tax policy decisions.
- Disadvantages
  - — The escalator index would still be perceived to be complicated and not well understood.
  - — It would still be generally difficult to predict by individual municipalities.
  - — Depending upon the replacement tax base chosen, the escalator index may be more or less stable and more or less responsive to changes in the provincial economy.

8) Summary

The Commission studied a number of alternative escalator indices using total provincial revenues or expenditures, four or three tax bases, and dedicated taxes.

The Commission agreed with the arguments against using provincial revenues, particularly in regard to the concern about tying the escalator to provincial tax policy decisions.The Commission concluded that using total provincial expenditures to calculate the escalator index would be inappropriate and would not be revenue sharing. The option of using the average percentage change of total provincial revenues and expenditures was rejected because it combines the disadvantages of both the earlier-noted options.

The Commission also rejected adding resource revenues to the remaining tax bases because of the volatility of these revenues and the direct linkages to provincial resource policy that would result.

While the dedicated tax approach would likely be better understood than the current escalator index, the Commission concluded that it would be inappropriate to tie the size of the revenue sharing pools and the escalator index to dedicated taxes which reflect provincial tax policy decisions.

The Commission believes that the best approach to the escalator index is to use a 3 year average of the performance of major provincial tax bases. Using tax bases would avoid tying the escalator index to provincial tax policy decisions. In addition, the 3 year averaging provision would add a degree of stability to the index by smoothing out the peaks and troughs of changes in the performance of the tax bases.

The Commission believes that four tax bases are preferable to three tax bases, because less emphasis is attached to each tax base, particularly the more volatile income tax bases. The four tax bases used to determine the escalator index should be the personal income tax base, the corporate income tax base, the Education and Health Tax base, and the fuel tax base.

The Commission proposes that a new data series and definition of fuel sales in Saskatchewan should be utilized in order to overcome the current technical difficulties with using the fuel tax base. In effect, the Commission has concluded that the original approach to the escalator index is still appropriate and remains the best approach among the various alternatives considered.

D. Application to Other Programs

There is potential for the revenue sharing concept to be applied to other fiscal transfers from provincial government tax sources to local governments. For example, the total amount of provincial funding for operating purposes for elementary and secondary education could be determined through an escalator index, and the monies could continue to be allocated among individual school divisions by the current foundation formula.

With regard to elementary and secondary education, major components of the objectives of both the provincial government and school divisions have centred around the achievement of a certain overall provincial government share of expenditures on education and the achievement of certain objectives in regard to school mill rates. These objectives cannot be achieved through a revenue sharing approach, mainly because it would only be by chance that a particular set of objectives in regard to mill rates and the provincial share of costs could be achieved through the application of an escalator index. Neither the provincial government nor school divisions, either collectively through the Saskatchewan School Trustees Association or individually, have expressed interest in the use of the revenue sharing concept for education, presumably because they are not prepared to accept its impliclations in terms of the ability to achieve other objectives. Under these circumstances, the Commission believes that it would be inappropriate to apply the revenue sharing concept to elementary and secondary education.

Transfers from the provincial government to hospital boards for purposes other than capital are intended to cover the full costs of the services which the Saskatchewan Hospital Services Plan deems to be appropriate for each hospital. Local funding is only intended to cover discretionary expenditures which hospital boards choose to make over and above that which S.H.S.P. funds. The Commission believes that these practices should continue.[5] If they do continue, it would be inappropriate to base the global amount transfers to hospitals on the basis of an escalator because the amount of revenue generated would be highly unlikely to correspond to the needs of the hospital system.

For reasons similar to those which were described for school divisions, the Commission believes it would be inappropriate to apply the revenue sharing concept to the funding of library boards.

In summary, the Commission does not believe that the revenue sharing approach should be used to determine the aggregate level of funding for local governments other than municipalities.

4. CONCLUSIONS/RECOMMENDATIONS

The Commission has concluded the following:

- Although both the provincial and municipal governments have indicated support for the concept of an escalator index, experience suggests that the implications of this concept of determining the level of transfer payments and the shared responsibility for dealing with the consequences of year-over-year changes in provincial transfer payments has not been fully adopted or accepted by both parties.
- Notwithstanding this less than full endorsement of the revenue sharing and escalator concept, **the Commission has concluded that the escalator index concept is sound and workable, and should continue to be used for determining the aggregate amount of funding under revenue sharing.**
- **The escalator index concept should not be imposed on other programs of financial assistance, unless there is mutual support for the concept from both the recipients and the provincial government.**
- **The Commission recommends that the escalator index continue to be determined by the three year moving average of the annual changes in four major provincial tax bases: the personal income tax base, the corporate income tax base, the Education and Health Tax base, and the fuel tax base.**
- **The Commission recommends that a new data series and definition of the volume of fuel sold in Saskatchewan should be adopted to measure the fuel tax base.**

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[5] The Commission deals at greater length with the issues of local financing of hospitals in Part V of this report.

CHAPTER TWO

RURAL REVENUE SHARING

Chapter Two of Part I provided an overview of the revenues and expenditures of local governments. Chapter One of Part III dealt with the overall concept of revenue sharing and the use of an escalator to determine the size of the pools of monies to be distributed to municipalities. This chapter deals with the formulas that are used to allocate the rural municipal revenue sharing pool among individual rural municipalities.

1. TWO MAIN COMPONENTS

Revenue sharing payments to rural municipalities fall into two major categories:

- unconditional payments; and
- conditional payments.

From 1971 to 1977, inclusive, unconditional provincial payments to rural municipalities amounted to an average of 21.9% of total provincial payments. With the introduction of revenue sharing in 1978, the share of unconditional payments rose sharply to 40.8% of the total, and has averaged 37.5% from 1978 to 1984, inclusive.[1]

In the fiscal year 1985-86, the Department of Rural Development allocated 35% of rural revenue sharing dollars to unconditional payments and 65% to conditional payments as shown below:[2]

	1985 - 86	% of Total Allocation
Unconditional Payments	$16.7 million	35%
Conditional Payments	30.5 million	65%
Total Allocation	$47.2 million	100%

2. UNCONDITIONAL GRANTS[3] - A DESCRIPTION

There are three basic components to the unconditional revenue sharing payments paid to rural municipalities:

	1985 - 86	% of Unconditional Allocation
Hamlet Grant	$ 706,000	4.2%
Basic Grant	2,761,000	16.5%
Equalization Grant	13,234,000	79.2%
Total	$16,701,000	100.0%

A. Equalization Grant

1) Purpose of Equalization

Some municipalities have high expenditure requirements, but have a small tax base from which to finance those expenditures. Other municipalities have a large local tax base and have considerably less difficulty in meeting their expenditure requirements.

The equalization grant is designed to provide more assistance to the "least wealthy"[4] municipalities and less or no assistance to the "most wealthy" municipalities, in an effort to promote greater equality among municipalities in their ability to provide municipal services at a reasonable local tax rate. $13.2 million or 79% of the unconditional funding to rural municipalities is paid in the form of equalization grants.

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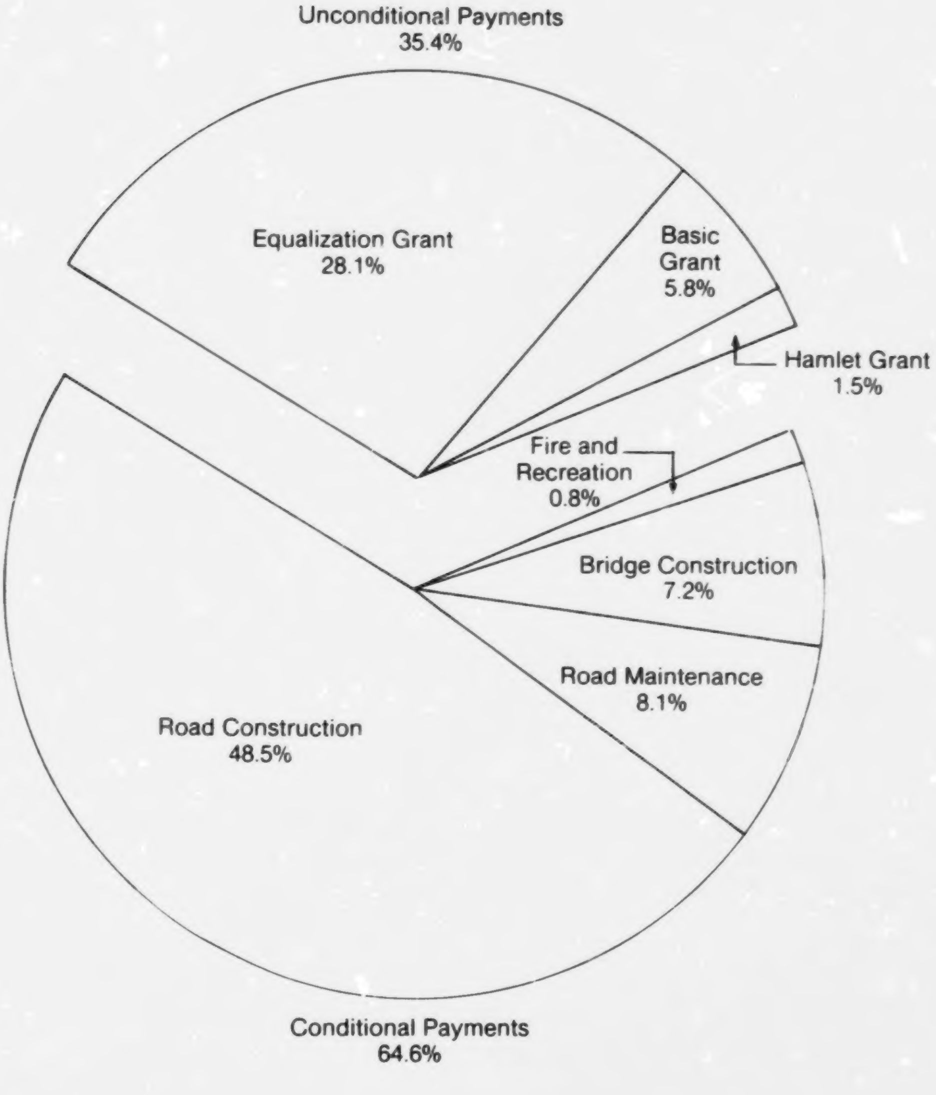
[1] See Appendix III-3.

[2] Because the fiscal years of the Department of Rural Development and rural municipalities differ, there are differences between what is paid and what is received in the respective fiscal years.

[3] The term "grants" is often used in the remainder of this chapter rather than the lengthier but more descriptive term "revenue sharing payments". The difference between "grants" and "revenue sharing payments" was set out in Chapter One.

[4] In the remainder of this report, the term "least wealthy" is used to describe local governments which have a relatively low fiscal capacity or revenue base in relation to the cost of services they are expected to provide, while the term "most wealthy" is used to describe local governments with a relatively high fiscal capacity relative to the expenditures they are expected to make. These terms are used for lack of other suitable short, but descriptive terms to describe the relative fiscal capacities of local governments. The terms are not intended to suggest that each property taxpayer within the respective local governments are wealthy or poor but, instead, to the overall relative fiscal capacity of the local government to raise the necessary revenues to finance a standard recognized expenditures.

CHART III-1
PERCENTAGE DISTRIBUTION OF RURAL REVENUE SHARING
1985



2) How Equalization is Calculated

The following description is intended to describe how the equalization grant is calculated in principle. In 1985, the actual rural equalization grant was only 43% of this equalization entitlement. The implication of paying only partial equalization is discussed later in this chapter.

To determine the equalization grant to be paid to a municipality, an objectively based estimate is first made of the annual expenditures which each municipality is required to make in order to provide a reasonable set of services. This amount, after deducting special non-tax revenues (mainly grants-in-lieu of taxes), is called the "annual service cost". The amount of local revenue which can be raised by applying a standard mill rate to the equalized assessment of each municipality is also determined. This standard mill rate, which was set at 75 mills for 1985, is deemed to represent the level of local revenue that can be raised without undue hardship. The amount of equalization grant to a municipality is based on the difference between the annual service cost and the amount which can be raised by the application of the standard mill rate to the equalized assessment. The larger difference the larger the grant.

Municipalities which could finance their standardized expenditure requirements with 75 mills or less receive no equalization grant.Municipalities which would have to levy a mill rate higher than 75 mills in order to finance their standardized expenditure requirements receive a grant proportional to the extent to which the mill requirement exceeds the 75 mills.

3) Used Only to Calculate Grants

The annual service cost and the standard mill rate are used only for the purpose of calculating grants. Municipalities are free to make their own decisions on the level of expenditures they feel are required and the local mill rate which they are prepared to levy.

4) Standard Annual Expenditure Requirements

There are several components to the annual expenditure requirement used in the calculation of the equalization grant for an individual municipality.

i) Administration - the actual average expenditures on administration for the previous three years in the municipality are used.

ii) Road Construction - the amount of road construction required each year for each municipality is calculated using standard criteria. This amount is arrived at by the following steps:

- The Department determines the total kilometers of roads of different types required in the municipality. This is divided into the categories of primary grid, grid, main farm access, local access and land access roads.

- The costs of constructing the network of roads is determined for each municipality using actual road construction costs for main farm access roads in the municipality for the previous 3 years. Higher costs are recognized for higher classifications of roads. For example, grid and primary grid roads are assigned costs which are 110% and 140%, respectively, of the assigned costs for main farm access roads.

- The amount of conditional grant that is available for each type of road construction is deducted in order to arrive at the net cost to the municipality.

- Based on the assumption that roads will last 20 years before requiring reconstruction, the total amount is divided by 20, to obtain an average annual cost to the municipality for road construction and reconstruction.

iii) Road Maintenance - the annual cost of maintaining the designated road network is calculated using the following components:

- Surface maintenance is calculated on the basis of different amounts per kilometer for each type of designated road (higher amounts for higher classifications of roads). There are three schedules of surface maintenance costs (high, medium, and low) and each municipality is assigned to one of those categories.

- Snow removal is calculated on a basis similar to surface maintenance.

- Costs of right-of-way maintenance are calculated for the designated network on a standard basis.

- Regravelling costs are assigned using standard amounts of gravel for the different classifications of road and a three year average for actual gravel costs per cubic meter.

The amount of conditional maintenance grant available to the municipality is deducted to arrive at the standard net maintenance cost to the municipality.

iv) Bridge Construction and Maintenance - the total cost of constructing all bridges in a municipality is determined on the basis of the number and span of bridges required in the municipality, and the average cost of constructing a bridge unit.[5] On the assumption that bridges should last an average of 40 years before requiring reconstruction, the total construction cost is divided by 40 to get an average annual bridge construction requirement.

The average cost of maintaining the bridges in a municipality is also determined.

Grants, which range between 20% and 80% of costs, depending on the size of the local tax base and the number of bridge units required in the municipality, are deducted to obtain a net annual construction cost to the municipality.

The annual expenditure requirement is the sum of the foregoing components.

5) Annual Service Costs

Some municipalities receive grants-in-lieu of taxes or revenues from a sharing arrangement on property taxes on potash mines. These revenues are deducted from the annual expenditure requirement in order to arrive at what is termed the "annual service cost".

6) Computational Mill Rate

Each year, a "base" or "computational" mill rate is determined for use in the calculation of the equalization grant. The base mill rate, which was set at 75 mills for 1985, represents the minimum local input which a municipality is expected to contribute toward meeting its annual service cost. If a municipality is able to generate enough revenue to meet its annual service cost with a mill rate of 75 mills or less, the municipality is deemed not to require an equalization grant. On the other hand, if a municipality would require a mill rate in excess of 75 mills to meet its annual service cost, the municipality is deemed to be in need of an equalization grant to permit the municipality to meet the annual service cost at a mill rate as close as possible to 75 mills.

The base mill rate is set somewhat arbitrarily each year. In the past, it has been set at a level which would ensure that no more than about 40 municipalities would be ineligible for an equalization grant.

7) Pictorial Description of Equalization Concept

Chart III-2 is a pictorial description of the equalization concept which operated in 1985 under rural revenue sharing. It is assumed that 3 rural municipalities - municipality "A", municipality "B", and municipality "C" - each have an annual service cost of $500,000. It is assumed, however, that they have quite different local tax bases or, in other words, that they have quite different fiscal capacities to meet the expenditures required in their respective municipalities. It is assumed that municipalities "A", "B" and "C" have assessment bases of $2,000,000, $4,000,000 and $8,000,000, respectively.

With a mill rate of 75 mills, municipality "A" would raise $150,000. Its theoretical equalization grant entitlement is $350,000, which is the full difference between the annual service cost of $500,000 and the $150,000 which can be raised locally by 75 mills. If municipality "A" received the full $350,000 in equalization, it would have enough revenue to meet its annual service cost with a local mill rate of 75 mills.

With a mill rate of 75 mills, municipality "B" would be able to raise $300,000, more than twice as much as municipality "A". However, 75 mills would not raise sufficient revenue to meet the $500,000 annual service cost. A full theoretical equalization grant of $200,000 would provide the municipality with enough revenue to enable it to finance its annual service cost with a mill rate of 75 mills.

Municipality "C" would raise $600,000 with a mill rate of 75 mills. This is more than sufficient to meet the $500,000 in annual service cost, and no equalization grant is required.

8) Partial Equalization

It would have cost $30,293,000 to provide each municipality with its full theoretical equalization grant entitlement in 1985, but only $13,234,000 or 43.7% of the requirement was allocated from the rural revenue sharing pool for equalization.

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[5] A bridge unit is defined as a 6 meter span. A 30 meter bridge would be equal to 5 bridge units.

CHART III-2
DESCRIPTION OF EQUALIZATION CONCEPT - FULL EQUALIZATION

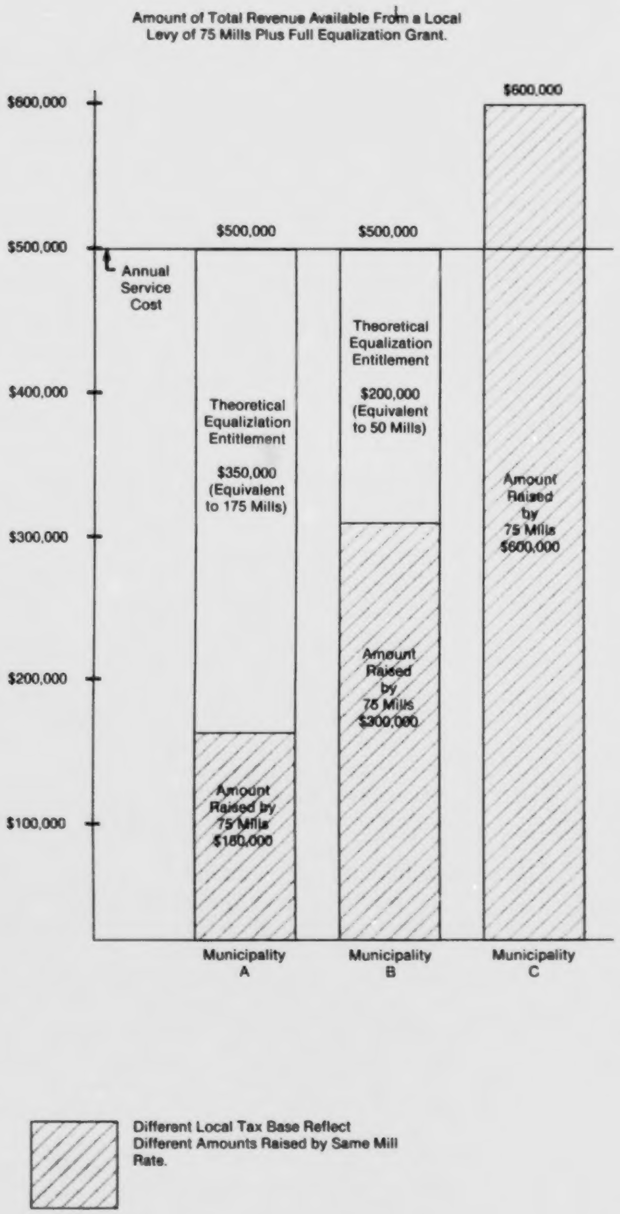
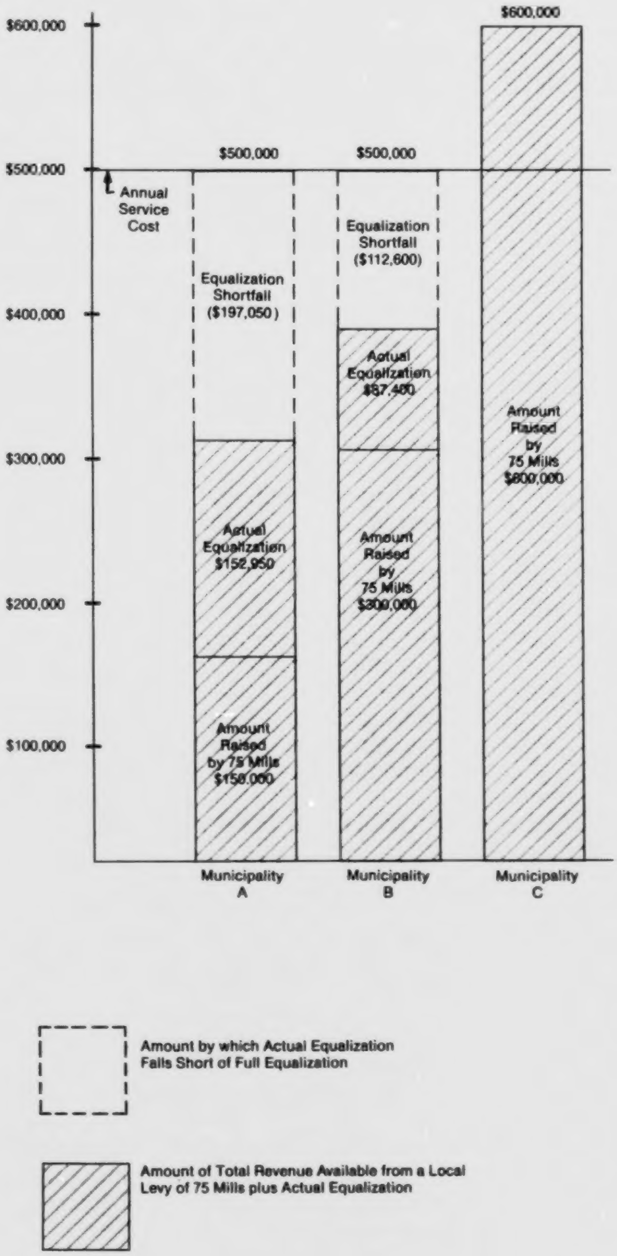


CHART III-3
DESCRIPTION OF EQUALIZATION CONCEPT - PARTIAL EQUALIZATION



Accordingly, each municipality received an actual equalization grant of 43.7% of its theoretical entitlement.

Chart III-3 provides a pictorial description of the partial equalization under the 1985 revenue sharing program.

Instead of receiving an equalization grant of $350,000, municipality "A" receives $152,950.A levy of 75 mills plus the actual equalization grant would leave municipality "A" $197,050 short of the annual service cost. The municipality would be required to levy 173.5 mills if it wished to spend at the level of the annual service cost.

Municipality "B" receives an equalization grant of $87,400 instead of its theoretical entitlement of $200,000. Municipality "B" would have to levy a mill rate of 103.2 mills to meet its annual service cost.

Municipality "C" would be able to meet the annual service cost of $500,000 with a mill rate of 62.5 mills even though it received no equalization grant.

Municipalities which would have to levy exceedingly high mill rates in order to meet their annual service cost are likely to choose to have a lower level of services and expenditures in order to keep the mill rate within reason.

Table III-1 provides a more detailed numerical outline of the equalization calculations.[6] If there were no equalization grant, and if each municipality endeavoured to finance its standard annual service cost, municipality "A" would require a mill rate of 250 mills, municipality "B" would require 125 mills, and municipality "C" would require 62.5 mills.This represents the municipality's "theoretical mill rate" and is used as a measurement of the

TABLE III-1
CALCULATION AND IMPACT OF 1985 RURAL MUNICIPAL EQUALIZATION GRANT

	Municipality "A"	Municipality "B"	Municipality "C"
Background Data			
1) Standard Annual Service Cost	$ 500,000	$ 500,000	$ 500,000
2) Assessment	2,000,000	4,000,000	8,000,000
3) Mill Rate Required to Finance Standard Annual Service Cost Without Equalization Grant: row 1) ÷ row 2) x 1,000	250 mills	125 mills	62.5 mills
4) Amount Raised by 75 Mills: row 2) x 75 ÷ 1,000*	150,000	300,000	600,000
Theoretical Equalization Grant			
5) Theoretical Equalization Grant: row 1) minus row 4)**	350,000	200,000	—
6) Amount to be Raised from Local Tax Base to Finance the Standard Annual Service Cost if the Full Theoretical Equalization Grant is Paid: row 1) minus row 5)	150,000	300,000	500,000
7) Mills Required to be Levied to Finance the Standard Annual Service Cost if the Full Theoretical Equalization Grant is Paid: row 5) ÷ row 2) x 1,000	75 mills	75 mills	62.5 mills

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[6] See Appendix III-4 for a detailed example of a 1985 equalization calculation.

TABLE III-1 (continued)
CALCULATION AND IMPACT OF 1985 RURAL MUNICIPAL EQUALIZATION GRANT

	Municipality "A"	Municipality "B"	Municipality "C"
Actual Equalization Grant			
8) Actual Equalization Grant: Theoretical Equalization Grant: row 5) x 43.7%***	$ 152,950	$ 87,400	—
9) Amount to be Raised from Local Tax Base to Finance the Standard Annual Service Cost After Receiving the Actual Equalization Grant: row 1) minus row 8)	347,050	412,600	$ 500,000
10) ills Required to be Levied to Finance the Standard Annual Service Cost After Receiving the Actual Equalization Grant: row 9) ÷ row 2) x 1,000	173.5 mills	103.2 mills	62.5 mills

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*75 mills was deemed in 1985 to be the amount of local input which should be expected from each municipality in meeting its annual service cost.

**This is the amount required in equalization grant to enable a municipality to finance its annual service cost with a local mill rate of no more than 75 mills.

***$13,234,000 was allocated from the rural revenue sharing pool to equalization, but the total theoretical entitlement of all R.M.s was $30,293,000. Each municipality was given 43.7% of its theoretical entitlement in order to accommodate the amount of monies available.

municipality's relative wealth. The lower the theoretical mill rate, the wealthier the municipality, and the higher the mill rate, the less wealthy the municipality. If full equalization were paid, both municipality "A" and "B" would be able to meet the annual service cost with mill rates of 75 mills. Municipality "C" would not be eligible for equalization and would still require only 62.5 mills.

Because of the payment of only partial equalization, municipality "A" and "B" would require mill rates of 173.5 and 103.2 mills respectively, while municipality "C" would continue to require 62.5 mills, for each of them to finance the annual service cost.

B. Basic Grant

Each rural municipality receives a relatively small grant which is tied to the annual service cost of the municipality. The size of the local tax base does not enter into the calculation of the grant.

In 1985, the amount of basic grant was the greater of $3,000 or 2.7721% of the annual service cost of the municipality.[7] On average, municipalities received approximately $9,200, under this component of revenue sharing.

C. Organized Hamlet Grant

Organized hamlets within rural municipalities receive basic and per capita grants identical to those which urban municipalities of the same population receive.In 1985, these amounts were:

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[7] An amount of $2,761,000 was arbitrarily allocated to the basic grant component. The 2.7721% is the percentage which, when applied to the annual service cost of all municipalities, yields $2,761,000.

- a basic grant which varies from a low of $2,075 to a high of $3,000, depending upon the population of hamlet,
- a per capita grant of $54.45.

A total of $706,000 was assigned to the hamlet grant for 1985 for distribution among 149 organized hamlets.

3. CONDITIONAL GRANTS - A DESCRIPTION

Conditional payments represent approximately 65% of the payments made to rural municipalities. In 1985, the major categories of conditional grant were:

• Road Construction/ Reconstruction	$22.8 million
• Road Maintenance	3.8 million
• Bridge Construction	3.4 million
• Intermunicipal Fire and Recreation Programs	0.4 million
TOTAL	$30.4 million

A. Road Construction/Reconstruction

The Department of Rural Development and its predecessor departments and agencies have developed a proposed network of rural municipal roads consisting of approximately 103,000 kilometers of local access and land access roads, and approximately 54,000 kilometers of "designated" roads. The local access and land access roads are intended to provide a means of access to the farmsteads and the land respectively, and are not eligible for assistance under conditional revenue sharing.[8] The designated roads are eligible for construction and reconstruction grants and, in 1985, approximately 75% of the conditional funding under rural revenue sharing was provided for this purpose.

The main categories of designated roads which are eligible for construction and reconstruction grants are:[9]

- Grid Roads (about 14,000 kilometers designated)

  This is a system of all-weather roads which are interconnecting among rural municipalities. This system is essentially completed.

- Primary Grid Roads (about 8,000 kilometers designated)

  This is a system of roads, (sometimes referred to as "super grids" which are more heavily used than "regular" grid roads and are constructed to a higher standard. Just over 35% of this network has been constructed and about 10% of it has been oil surfaced.

- Main Farm Access Roads (about 30,000 kilometers designated)

  This is a system of gravelled all-weather roads which are designed to provide access to farm sites and to serve as interconnecting links between higher classifications of roads. About 75% of this network has been completed.

- Other (about 2,300 kilometers designated)

  There are several classifications of roads which are designed to handle large volumes of industrial traffic with heavy loads, to accommodate routes which carry a high percentage of tourist and resort traffic, or to provide access roads to regional parks and Indian Reserves. Over 75% of these roads have been constructed.

There are three main factors which determine the amount of grant which a municipality will receive for the construction or reconstruction of a road which is part of the designated network.

- Cost of Construction

  The cost of construction varies from municipality to municipality, and within the municipality, depending on the type of soil, predominance of sloughs and rocks, the general terrain, etc.. The grants are paid on the basis of the actual costs incurred in constructing individual sections of road.

- The Wealth of the Municipality

  Municipalities are eligible for a grant equal to a certain percentage of approved costs of the particular type of road being constructed.There is a basic percentage of assistance for main farm access roads which varies between 40%

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[8] The costs of construction and maintenance of these roads are included in the equalization grants formula so there is a form of assistance for these roads for those municipalities which are eligible for equalization grants.

[9] See Appendix III-5 for a more detailed description of the various categories of roads.

and 60%, depending upon the relative wealth of the municipality.[10]

- The Type of Road

  Some types of designated roads are eligible for a grant of an additional percentage of approved cost, over and above the basic percentage that applies to main farm access roads. For example, industrial access roads are eligible for the basic percentage plus an additional 20%, up to an allowable maximum of 80%, and primary grid roads are eligible for an additional 10% above the basic percentage.

  The basic percentage is adjusted if the cost of construction exceeds certain levels. For main farm access roads, for example, an additional 15%, is paid on costs in excess of $3,000 per kilometer, and a further 10% is paid on costs in excess of $6,000 per kilometer. As a result of the payment of these additional percentages, the average grant percentage substantially exceeds the basic range of 40% to 60%. For example, grants for main farm access and primary grid roads average about 70%; grants for industrial access roads and regional parks are generally at the allowable maximum of 80% and 90% respectively; and grants for resort roads average about 78%.

Reconstruction grants for designated roads are paid on the basis of principles similar to those which apply to construction.[11]

Roads must be built to specified standards before they are eligible for grant support.

A specific set of policies govern the allocation of the available construction/reconstruction grants among municipalities.[12]

B. Road Maintenance

Maintenance grants are paid on all roads which are part of the designated road network on which construction grants are paid, and which have been constructed to standard. In 1985, $3.8 million or 12.5% of total conditional grants were paid out in maintenance grants. For 1985, a flat rate of $60 per kilometer was paid for all main farm access and Indian Reserve access roads. Grants for primary grid roads, grid roads, regional park roads, resort roads, industrial and oil access roads, ranged between $90 per kilometer and $180 per kilometer, depending upon traffic volume. Oil surfacing maintenance is paid at the rate of 50% of costs for primary grid roads and regional park roads.

Roads must be maintained to standards specified by the Department of Rural Development before they are eligible for maintenance grants.

C. Bridge Construction

Grants are paid for bridge construction on the basis of a varying percentage (basically between 20% and 80%) of the actual cost of constructing the bridge. In 1985, $3.4 million or 11.2% of the conditional revenue sharing grants were allocated to bridge construction.

The percentage of costs that are covered by grants varies according to the number of bridge units required in the municipality in relation to the assessment of the municipality in question. A bridge unit is defined as a span of 6 meters, so that a 30 meter bridge, for example, would be counted as 5 bridge units. The larger the number of bridge units required, other things being equal, the larger the percentage of grant. The larger the assessment base of the municipality, other things being equal, the smaller the percentage of grant.[13]

D. Intermunicipal Fire Protection and Recreation Programs

Through conditional grants, rural municipalities are encouraged to co-operate with other rural municipalities and with urban municipalities in the provision of fire protection services and in meeting the

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[10] The theoretical mill rate derived in the calculation of the equalization grant is used as the measurement for the relative degree of wealth of the municipality. This mill rate is the rate which a municipality would require to finance its annual service cost without the benefit of an equalization grant. The lower the theoretical mill rate, the wealthier the municipality, and the higher the theoretical mill rate, the less wealthy the municipality. The relationship in 1985 between the theoretical mill rate and the main farm access grant percentage was as follows:

Theoretical Mill Rate	Main Farm Access Percentage	Theoretical Mill Rate	Main Farm Access Percentage
Less than 56 mills	40%	106-112 mills	52%
56-65	42	113-119	54
66-75	44	120-126	56
76-85	46	127-133	68
86-95	48	134+	60
96-105	50		

[11] See Appendix III-6 for a summary of the current policies governing levels of assistance for construction, reconstruction, and oil surfacing.

[12] See Appendix III-7.

[13] See Appendix III-8.

operating and maintenance costs of recreation facilities. In 1985, $0.4 million, or about 1.3% of the conditional revenue sharing payments, were paid through these programs.

Under the intermunicipal fire protection program, a municipality which has a signed agreement with at least one other municipality governing the provision of fire protection services is eligible for a grant of $1 per capita, up to a maximum of $10,000. Approximately 90% of rural municipalities and 70% of urban municipalities participate in this program.

Under the intermunicipal recreation program, a municipality which has a written agreement with at least one other municipality governing the sharing of operating and maintenance costs of designated recreation facilities is eligible for a grant of 50% of expenditures under the agreement, up to a maximum of $100 plus $1.00 per capita for the first 15,000 population, $0.75 for the next 15,000 population, and $0.50 for the balance of the population. Approximately 70% of the rural municipalities and 60% of the urban municipalities participate in this program.

E. Regravelling Programs

In 1986-87, a one year, $6.5 million regravelling program was introduced to assist rural municipalities in maintaining the designated road network. Provincial assistance will be provided at the rate of 50% of actual costs to a specified maximum amount of gravel per kilometer on each kilometer of constructed designated roads. The regravelling program will be funded under rural revenue sharing by redirecting the amount of unspent conditional road construction/reconstruction grant allocations at the end of the year to this new program. Under the previous policy, the unused balance was assigned to rural municipalities which have constructed more roads than their allocation had provided for.

F. Heavy Haul, High Volume Roads Program

In 1985, an additional $2 million was made available to rural municipalities to upgrade certain heavy haul roads. This program is funded outside the rural revenue sharing program as part of a capital fund in the Employment Development Agency, but is mentioned here to provide a more complete outline of provincial payments to rural municipalities.

Roads providing access to oilfields, industrial roads, roads over which high volumes of gravel are hauled, roads experiencing large amounts of grain hauling, and other roads with very heavy traffic volume are eligible under this program. Approximately 660 kilometers of road have been designated under this program.

Construction or reconstruction grants are paid from the revenue sharing allocations in regard to the cost of building the roads to regular designated standards.Assistance for the additional cost of building the roads to standards required to sustain the heavy haul, high volume traffic is paid from the capital fund, and is paid at the regular percentage rate which applies to main farm access roads plus an additional 20%.

4. COMMENTS/EVALUATION - UNCONDITIONAL GRANTS

A. Equalization Structure and Concept

The Commission is impressed with the structure and underlying principles of the rural revenue sharing equalization formula. The approach of basing the grant on the difference between annual expenditure requirements and the amount which the municipality can reasonably be expected to raise locally is fundamentally sound. Its principles are relatively simple and easy to understand. Its primary objective of enabling each municipality to provide a common standard of services at a reasonable local mill rate, regardless of the size of the local tax base is sound. By paying the equalization grant unconditionally, local independence or autonomy of rural municipal government is promoted.

The methods used to determine the expenditure requirements are highly objective. There is a minimum of subjective judgments involved on the part of those who construct the components of the formula each year, and this in turn promotes confidence in the system and minimizes the amount of contention which might otherwise develop between the Department of Rural Development and individual municipalities.

B. Sufficiency of Equalization

Although the equalization formula itself is fundamentally sound, the failure to provide full equalization entitlements results in serious financial inequities among rural municipalities. The most wealthy municipalities with large local tax bases are able to have high levels of municipal services with relatively low local tax rates. The least wealthy municipalities with small local tax bases, on the other hand, are forced either to have extremely high local tax rates in their effort to provide comparable services, or they must provide low levels of services.

1) Hypothetical Municipalities

   Chart III-2 and Table III-1 demonstrate the effects when full equalization is paid. Two municipalities, "A" and "B", which would have to levy 250 mills and 125 mills respectively to meet their local share of annual expenditure requirements if there were no equalization, would both be able to meet their expenditures with mill rates of 75 mills if full equalization were paid. Municipality "C" does not qualify for equalization, but it is still able to meet its expenditure requirements with a mill rate of 62.5 mills.

   Because only a portion of this equalization to which a municipality is theoretically entitled is actually paid, these same 3 municipalities would have to levy quite different mill rates in order to meet their expenditure requirements. Municipality "C" would still be able to meet its expenditure requirements with a mill rate of 62.5 mills, while municipalities "A" and "B" would require 173.5 mills and 103.2 mills, respectively. In actual practice, a municipality in the position of municipality "A" is likely to choose a lower expenditure and a lower level of service in order to keep its mill rate within reason.

2) Actual Municipalities

   The foregoing analysis is based on hypothetical municipalities. For purposes of illustration, the 15 most wealthy municipalities are compared with the 15 least wealthy municipalities. Wealth, for the purpose of this analysis, is defined in terms of the relationship between the annual expenditures required, and the size of the local tax base. Specifically, the mill rate which a municipality would have to levy in order to finance the annual expenditure is used as a measure of relative wealth of municipalities.

   In the absence of conditional or unconditional grants, the 15 most wealthy municipalities could meet their standard annual expenditure requirements with mill rates averaging 65.5 mills, while the 15 least wealthy municipalities would require an average of 303.2 mills. This shows the gross inequity which would prevail if there were no provincial assistance to municipalities.[14]

   The availability of conditional grants reduces the net expenditure required to be raised from local sources. This, in turn, reduces the number of mills required locally, but because of the relatively low tax base of the least wealthy municipalities, it means more in mills for these municipalities. The most wealthy municipalities could meet their annual expenditure requirements with mill rates averaging 53.7 mills while the least wealthy municipalities would require an average of 202.2 mills. It is clear, therefore, that even after the conditional grants have been paid, there remains a major disparity between the most wealthy and least wealthy municipalities.

   None of the 15 most wealthy municipalities were eligible for equalization grants in 1985, but the 15 least wealthy municipalities received equalization grants which were equivalent to an average of 55.6 mills. Even with these payments, the least wealthy municipalities would still require an average of 146.6 mills to meet their annual expenditure requirements, while the most wealthy municipalities would still require an average of only 53.7 mills.This large difference in mill rate requirements, after taking into account both the conditional shared cost grants and equalization grants, shows that a major inequity prevails in the allocation of revenue sharing monies among individual rural municipalities.[15]

   If the full equalization grant to which each municipality is theoretically entitled were actually paid, there would be a substantial reduction in the inequity. All 260 of the rural municipalities eligible for equalization would be able to meet their standard annual expenditure requirements with a mill rate of 75 mills.[16] In other words, **full application of**

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[14] See Appendix III-9.

[15] See Appendix III-10 for comparable data for all municipalities.

[16] The Commission emphasizes that it would be extremely unlikely for all municipalities to actually levy the same mill rate. First, no formula, regardless of how well it is structured, is likely to be able to precisely match actual requirements in a municipality. Secondly, municipal councils have a great deal of autonomy and are likely to come to differing conclusions on the level or standard of services which are required and the local tax rate which is deemed to be appropriate.

the present equalization formula would greatly improve the overall degree of equalization and fairness in the financing of municipalities.

3) Difficult Choices

The municipalities in the least wealthy category are faced with difficult choices. If they endeavour to provide the standard level of services envisaged in the equalization formula, they can only do so at mill rates which are higher than average and much higher than the most wealthy municipalities. On the other hand, municipalities which have very large local tax bases relative to their expenditure requirements are able to exceed the expenditures and service levels envisaged in the formula, and do so with mill rates that are still considerably below what other municipalities require. Councils in the least wealthy municipalities are likely to opt for lower expenditure levels simply to keep their mill rates within reason.

Table III-2 outlines the types of actual choices made by municipalities. On average, the least wealthy municipalities spent only 73.3% of the standard annual expenditure, yet had mill rates which exceeded those of the most wealthy municipalities by 69.6%. On average, the most wealthy municipalities spent 29.1% more than the standard annual amount, but had mill rates which were only 58.9% of those of the least wealthy municipalities.[17]

4) Arguments Against Equalization

Two main arguments have been made against the principle of achieving greater equality in the ability of municipalities to provide comparable standards of services at comparable mill rates:

i) Choice of Place to Live and Do Business

It has been suggested that people who have chosen to live in an area where the local tax base is low and where the road system is relatively undeveloped should not expect to receive the same level of services as people in other municipalities which have achieved their current road standards over a number of decades.

The standard expenditures used in the calculation of the equalization grant are based on the assumption that designated roads will be built and or reconstructed over a 20 year period. A 20 year period for achieving a reasonably uniform standard of roads does not appear to the Commission to represent excessive expectations.

TABLE III-2
COMPARISON OF ACTUAL EXPENDITURES AND MILL RATES MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

	Average for the 15 Most Wealthy Municipalities	**Average for the 15 Least Wealthy Municipalities**
1) Gross Theoretical Mill Rate Requirement	65.5 mills	303.2 mills
2) Standard Gross Annual Expenditure Requirement	$521,539	$511,383
3) Gross Actual Expenditures	673,489	374,755
4) Gross Actual Expenditures as a Percentage of the Standard	127.2%	73.3%
5) Actual 1985 Mill Rates	64.9 mills	110.1 mills

Item 1) These are the mill rates which would be required for municipalities to finance their standard gross annual expenditure requirement in the absence of either conditional or unconditional grants.

Item 2) These are the total gross annual expenditure requirements of municipalities as defined under the 1985 equalization calculation prior to deducting conditional grants. The standard unit costs used in the 1985 formula were based on an average of 1981 to 1983 expenditures.

Item 3) These are the total gross expenditures of municipalities from their operating accounts, averaged for the three year period, 1982 to 1984.

Item 4) This is Item 3 as a % of item 2).

Item 5) These are equalized mills based on equalized assessments.

NOTE: See Appendix III-11 for a listing of individual most wealthy and least wealthy municipalities.

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[17] Much of the foregoing analysis has been based on a comparison 15 most wealthy and least wealthy municipalities.The number 15 was arbitrarily chosen for illustrative purposes. The comparisons are predictably less dramatic if larger groups at either end of the scale are chosen, but they still reveal the basic inequities arising from lack of full equalization.

The Commission recognizes that where a road system is relatively undeveloped, it is not feasible to expect it to be brought up to standard overnight.

However, under the current degree of equalization, municipalities with a small local tax base relative to their expenditure requirements will either require a much longer period to achieve the standards, or they will require much higher mill rates to achieve it.The foregoing argument, in the view of the Commission, is not a valid defense for the current major shortfall in achieving the objective of equalization.

ii) Assessment of Farmland

It has been suggested that it would be unfair for agricultural land that has a high assessment to bear a mill rate which is the same as the mill rate on agricultural land that has a relatively low assessment and, therefore, it is not desirable to have greater equality in local mill rates.

The Commission has three observations to make in this connection:

- Municipalities have a large local tax base not simply because of the assessment of agricultural land. Some municipalities which have agricultural land assessed at an average or even below average level have a large assessment base because of industrial development in the municipality. In such situations, there is a combination of relatively low assessment, as well as generally lower mill rates.
- There are many individual parcels of farmland with a relatively high assessment, which are located in a rural municipality with a relatively small overall tax base. Under the current disparity in mill rates, these parcels of farmland with relatively high assessments also bear relatively high mill rates, and high tax loads.

  Similarly, there are many individual parcels of farmland with a relatively low assessment, but which are located in a rural municipality with a relatively large overall tax base. Such rural municipalities currently tend to have relatively low mill rates. The combination of low mill rates and low assessment bring about low tax loads.[18]

  These facts illustrate the fallacious reasoning of those who suggest that it is fair to have a grant system which produces low mill rates in municipalities with a large local tax base and high mill rates in municipalities with a small local tax base.

  Individual parcels of land in a municipality do not have the same assessment. There are great variations in assessed values of farmland, both across the province as a whole, and within individual municipalities. **The Commission believes that fairness in tax loads will not come about if there are great variations in mill rates among municipalities. Fairness will arise only if there is greater equality (or an opportunity for greater equality, depending on the expenditure decisions of individual councils) in mill rates.**
- The system of assessing rural farmland is intended to place values on various parcels of land in proportion to their long-term profitability. If the assessment system itself does what it purports to do, the placing of the same mill rate on parcels of land with differing assessment is fair. If the assessment system does not properly reflect the long-term profitability of land, it should be amended. The Commission, in an earlier report, made a number of recommendations aimed at improving the assessment system.

In short, the Commission does not believe that there are valid arguments against achieving a greater degree of equalization in the funding of rural municipalities. Instead, the principle of fairness in taxation dictates that fiscal transfers to municipalities be designed to bring about greater equality in mill rates.

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[18] See Appendix III-12.

Differences in local tax rates are legitimate when they reflect decisions of the respective councils to have a lower or a higher standard of service. Such differences are not legitimate when they are forced upon municipalities by virtue of inadequate equalization in the system of provincial payments to municipalities.

5) Summary

The Commission believes that the current equalization formula is sound. The fact that the formula is not fully applied, however, results in the objectives behind the formula falling far short of achievement. In short, there are serious inequalities among rural municipalities in their ability to provide reasonable standards of service at reasonably comparable local mill rates, even with the current grant programs.

C. Components in the Equalization Formula

1) Non-Transportation Items

The Commission notes that the equalization formula recognizes expenditures for only two main functions: administration and transportation. Other types of expenditures made by rural municipalities which could be considered for inclusion in the formula include:

- fire protection services;
- police protection (for those requiring services beyond that provided by the R.C.M.P.);
- animal and pest control;
- ambulance services;
- waste collection and disposal;
- public wells;
- cemeteries;
- veterinary services;
- planning and zoning;
- culture and recreation programs and facilities.

The Commission believes that if additional types of expenditures are recognized, they should be based on objective criteria to minimize the amount of subjective judgments which are required to operate the formula. It would also be preferable that the amounts be recognized unconditionally so as to preserve the essentially unconditional nature of the equalization grants.

The Commission believes that there would be merit in an examination of possible addition of other categories of recognized expenditures to the formula. Any such additional items should be based on objective criteria and should be recognized unconditionally.

2) Special Circumstances

Some municipalities are faced with special circumstances that are not automatically reflected in the equalization grant. For example, several municipalities have expressed concern about oil fields. On the one hand, most municipalities are grateful for the expansion of their local tax base that comes with activity in the oil field. On the other hand, several have been concerned that additional road maintenance and reconstruction necessitated by the nature of the oil industry has resulted in additional expenses that are at least as great as and which often exceed the additional revenue brought about as a result of the additional assessment.

Unless the additional costs to the municipality of serving the oil fields are adequately reflected in the annual costs utilized in the calculation of the equalization grant, the actual wealth of the municipality will be overstated, and the municipality will not receive an appropriate share of equalization grants. Also, because of the fact that the equalization grant enters into the calculation of the percentage of cost sharing for which the municipality is eligible under the conditional grant programs, the municipality may also not receive an appropriate level of assistance under those programs.

The Commission recommends the inclusion of objectively determined

additional maintenance and reconstruction expenditures as special items for recognition in the equalization grant calculation where conditions warrant.

3) Administration

In calculating the standard annual expenditure requirement in the equalization grant calculation, the Department of Rural Development uses a three year average of the actual administration costs incurred by individual municipalities. Decisions to spend more or less money on administration have a direct impact on the municipality's equalization grant entitlement. The Commission believes that unconditional grant programs should not bias local spending decisions. Municipalities should not be penalized for having low administration expenditures, nor should they be rewarded with higher grants for having high administration expenditures.

The Commission recommends that the average administration expenditures for comparably sized rural municipalities should be used in determining the standard annual expenditure requirement. This proposal would not distort local decision-making while, at the same time, it would recognize that larger municipalities tend to have larger administration expenditures, in absolute terms, than smaller municipalities.

D. Basic Grant

The Commission recognizes the desirability of having a basic grant to which all municipalities are eligible from the standpoint of gaining and maintaining a broad base of acceptance for the unconditional grant programs among municipalities. Apart from this political objective, however, the Commission sees little merit in the basic grant. For municipalities with mill rates as low as 23 mills to receive a basic grant, while other municipalities struggle with mill rates as high as 140 mills seems to be a misplacement of priorities. **The Commission recommends that the basic grant be discontinued and that the $2.8 million be distributed to municipalities through the equalization formula.** The Commission recognizes that this would be an unpopular move among the more wealthy municipalities, but believes that the principle of fairness should be the predominant governing factor in the decision on this matter.

E. Hamlet Grant

The Commission believes there is merit in providing a degree of comparability of treatment between organized hamlets and urban municipalities of the same size. In theory, there would be merit in having an equalization component to such payments, but the practical difficulty of designing a formula which can work properly for very small communities is likely to preclude such an approach.

The Commission recommends the retention of the per capita grant for organized hamlets. The Commission's recommendation concerning the urban basic grant is dealt with in Chapter Three of this Part.

5. COMMENTS/EVALUATION - CONDITIONAL GRANTS

A. Road Construction/Reconstruction Grants

1) Designated Road Network

The concept of planning a designated municipal road network for the province as a whole is highly commendable. Road systems do not begin and end at municipal boundaries.Certain roads need to be planned on an intermunicipal basis to ensure that the transportation needs of people living in all municipalities can be met in the most efficient way possible.

It appears that there has been a high degree of understanding and consensus established in regard to the designated road network over the years.

A system of classifying roads and road standards in accordance with the nature and extent of the road traffic is logical.

Having a well-defined set of road standards and making certain grant payments conditional upon those standards being met is appropriate. Conditional funding has been necessary to ensure an integrated provincial system of municipal roads, rather than a "hodge-podge" of individual municipal road programs.

In short, it is apparent that a great deal of careful planning has gone into the designated road network.

2) Increments of Assistance

The basic provincial level of assistance for which a municipality is eligible ranges between 40% and 60%, depending upon the level of wealth of the municipality. The percentages of assistance are not a continuum between 40% and 60%, but are in increments of two percentage points (40%, 42%, 44%, etc.).

There would be some merit in using increments of 1/10 of a percentage point, so as to avoid having a small difference in theoretical mill rate causing a full two percentage points of difference in the basic level of cost sharing. However, the Commission recognizes that the impact would not be large and that there may be some additional administrative complexity. In short, a change to a greater number of smaller intervals of levels of assistance, while desirable, is not a high priority.

3) Equalization

The conditional road construction/reconstruction grant programs were designed to provide a substantial measure of equalization between the most wealthy and least wealthy municipalities, by having grants represent a varying percentage of recognized costs, depending on the relative wealth of the municipality.

As noted earlier, the basic level of assistance varies between 40% and 60% of approved costs.The most wealthy municipalities qualify for 40% and the least wealthy municipalities qualify for 60% of basic assistance.

Three factors serve to limit the amount of equalization under the shared cost programs:

i) The basic range of assistance (40% to 60%) is relatively small. The theoretical mill rate of the least wealthy municipalities may be up to 300 or 400 percent larger than the theoretical mill rate of the most wealthy municipalities. On the other hand, the least wealthy municipalities, which are eligible for 60% of basic assistance, receive only 50% more in assistance compared with the most wealthy municipalities, which get a minimum of 40% assistance.

ii) Additional percentages of assistance are paid, depending upon the classification of the road. For example, access roads to regional parks are eligible for the basic rate, plus 30% and primary grid roads are eligible for the basic rate, plus 10%.

There is good reason for such different percentages to be paid, but it does have the effect of narrowing the relative differences in amounts of support provided to municipalities of greatly differing wealth.

iii) Additional percentages of assistance are paid if costs per kilometer exceed certain levels. For example, for main farm access roads, there is an additional 15% of assistance on costs that exceed $3,000 per kilometer and a further 10% on costs in excess of $6,000 per kilometer. These extra percentages of assistance were established in order to help municipalities faced with particularly high construction costs. Because the limits have not been changed since 1960, inflation has insured that every municipality now receives the additional percentages.[19] The additional percentages no longer serve their original purpose of giving an extra percentage of assistance to municipalities with higher than average construction costs, and now have the effect of narrowing the relative differences in amounts of support between municipalities of varying wealth.

In allocating the conditional road construction/reconstruction monies among the municipalities, a minimum allocation of $50,000 is made. This, combined with the fact that the most wealthy municipalities can better afford to pay for their local share of the designated shared cost network might lead one to conclude that the most wealthy municipalities would end up with higher percentages of their designated network completed in comparison with the least wealthy municipalities. The Commission notes that there are wide variations in the percentage of the designated network completed, ranging from 12% to 100%. However, those variations do not correlate with the wealth of the municipalities. For example, the 15 most wealthy municipalities have 70% of their network completed, while the 15 least wealthy municipalities have 72% of it completed.[20]

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[19] The lowest recognized cost for main farm access roads in the 1985 equalization grant calculation was $9,000 per kilometer, well above the cost needed to qualify for the additional percentages of cost sharing.

The degree of equalization in the conditional road construction/reconstruction is displayed in Table III-3, where a contrast is drawn between the average of the most wealthy and least wealthy municipalities. Conditional grants amount to 29.6% of gross costs for the wealthy municipalities and 48.2% for the least wealthy municipalities, a difference of 18.6 percentage points.

TABLE III-3
DEGREE OF EQUALIZATION IN CONDITIONAL ROAD CONSTRUCTION/RECONSTRUCTION GRANTS TOTAL ROAD NETWORK MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

Item	Average of 15 Most Wealthy	Average of 15 Least Wealthy
1) Assessment	$8,358,153	$1,686,699
2) Gross Annual Road Construction Cost	249,383	299,687
3) Net Annual Local Construction Cost After Provincial Share Deducted	179,231	154,636
4) Amount of Provincial Share	70,152	145,051
5) Provincial Share as a % of Gross Cost	29.6%	48.2%
6) Mills Required to Meet Net Local Construction Cost	23.0 mills	93.5 mills

NOTE: See Appendix III-13 for explanations pertaining to this table.

In order to finance its share of annual construction costs, the wealthy municipalities would have to levy on average 23.0 mills, whereas the least wealthy municipalities would require 93.5 mills.[21]

If there were complete equalization in the conditional road construction grant programs, it would cost a similar number of mills for all municipalities to finance their local share of standard annual construction costs.

It is not necessary for all grant programs to be based on full equalization in order for there to be considerable equalization, in the overall package of grants. For example, if the full equalization entitlement were actually paid to each municipality, there would be a high degree of compensation for the incomplete equalization in the conditional road construction programs. This compensation occurs because the annual expenditures recognized for each municipality in the equalization calculation are net local expenditure requirements after taking into account the percentages of provincial funding available to each municipality.

Payment of full equalization grant entitlements would enable all municipalities that are eligible for equalization to finance their annual service cost at a common standard mill rate, regardless of the size of the local tax base. (See Appendices III-9 and III-10.) However, for the most wealthy municipalities, the payment of relatively high percentages of assistance under the road programs enables them to have lower-than-average mill rates, even though they receive no equalization grant.

An option entailing greater equalization of conditional road construction/reconstruction grants is described later in this chapter.

In fact, the same rate of assistance for a particular classification of road could be paid to all municipalities, regardless of their wealth, and there could still be close to full equalization if the equalization formula is structured properly and if sufficient monies are paid out through equalization.

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[20] The percentages of designated road systems completed for other groupings of municipalities were 70% for the 50 most wealthy, 71% for the 50 least wealthy, 72% for the 100 most wealthy, and 73% for the 100 least wealthy.

[21] See Appendices III-13 and III-14.

4) Local Decision-Making

The availability of conditional grants for particular activities has the effect of providing local governments with encouragement to place a high priority on those expenditures for which specific grant support is available and a lower priority on those expenditures for which no specific grant support is available. The higher the percentage of grant support, the greater the degree of encouragement.

The provision of grants for road construction equivalent to 70% or more of expenditures provides a very strong encouragement for the construction of designated roads. Municipalities are free to decide which of the designated roads in their approved network that the provincial funding will be provided to, but the high percentage of assistance available for construction substantially limits the effective autonomy of municipalities to set their own priorities in regard to construction of the designated network versus other types of expenditures.

It may make more sense for a particular municipality to put its emphasis on reconstructing parts of its current road network or entering into more intensive maintenance of certain roads, rather than build newly designed roads, but currently the provision of high levels of construction assistance practically dictates otherwise.Under current financing arrangements, municipalities suffer negative financial consequences if they place a priority on any type of expenditure other than roads in general and construction of the designated network in particular. Approximately 75% of conditional funding under revenue sharing is for road construction, so it is clear that the financial incentives weigh heavily for road construction relative to other types of local expenditures.

Notwithstanding the negative impact of the current conditional road programs on the autonomy and priority-setting exercises of municipalities, the Commission believes that there must be a continuation of conditionality in the road construction grant programs to ensure the provision of well-planned intermunicipal roads at required standards.Assistance levels do not need to be at their current levels, however, for these objectives to be achieved.

B. Maintenance Grants

Maintenance grants in 1985 were estimated at approximately $3.8 million, or about 12% of conditional grant allocations.

As noted earlier, the maintenance grants are available only on those portions of the designated road network which have been constructed and maintained to standard. They are paid in regard to neither the uncompleted portion of the designated network nor the local access and land access network. The grants are based on so much per kilometer. The grant is a flat amount per kilometer for main access roads, but the amount per kilometer for other designated roads varies in accordance with traffic volumes on the roads in question.

1) Rationale

Conditional maintenance grants help to ensure that the huge investment in designated roads is protected by promoting ongoing maintenance of those roads up to specified standards.

2) Less Sensitive

The conditional maintenance grant is less sensitive to local conditions than the maintenance costs recognized under the equalization grant program. Main farm access roads are eligible for a flat amount per kilometre, regardless of average rainfall, snowfall or gravel costs, for example, all of which affect maintenance costs. Other designated roads are eligible for varying amounts per kilometer, depending on traffic volumes, and while this is an important variable in determining maintenance costs, it is only one factor out of several.

To the extent that the equalization formula fully recognizes variations in maintenance costs among all types of roads among all municipalities, there is compensation for shortfalls in the conditional maintenance grant program. The equalization grant program is designed in an effort to recognize both the cost of maintaining all categories of roads and the revenues derived from conditional maintenance. Because only less than half of the equalization entitlement is actually paid, however, the amount of compensation is limited accordingly.

3) Promotes Road Construction

The Commission has two main observations to make in regard to the impact of the maintenance grant:

i) First, the maintenance grant provides encouragement for the construction of additional kilometers of designated roads. This arises because of the fact that roadways now being operated and maintained by municipalities and which are part of the designated network but which have not yet been built to the designated standard, are not eligible for specific maintenance grants. Once a municipality builds and maintains a designated roadway to the designated standard, however, additional grants in the form of conditional maintenance grants are made available. The more designated roads that are built, the more maintenance grants the municipality will receive. Building and maintaining other municipal roads, even though they may be a higher priority for the municipality from time to time, receives no financial support through revenue sharing.

The Commission recognizes there is a broad provincial interest that is served, going well beyond the boundaries of an individual municipality, when the designated network is in place. However, the Commission questions whether the degree of incentive for the construction of the designated network needs to be as strong as it is. A municipality may have other legitimate priorities, but would tend to feel pressured into building more designated roads because of the availability of both construction and maintenance grants.

ii) The amount of conditional monies available for maintenance of the overall road system is small relative to the costs incurred by the municipalities for maintenance. After taking into account conditional grants, the net expenditure requirement in the equalization formula for maintenance for the total municipal road system is actually larger than the net expenditure requirement assigned to road construction.[22] At the same time, maintenance grants amount to only 12% of the conditional revenue sharing allocation.

C. Bridge Grants

The Commission believes that the system of providing assistance to municipalities for bridge construction is sound. In particular, the method of measuring a municipality's overall need for bridges in terms of bridge units, and in basing the percentage of assistance on the equalization principle, are in keeping with the objective of equity. The range of assistance is sufficiently wide (20% to 80%) to provide a meaningful measure of equalization.

D Intermunicipal Fire Protection and Recreation Programs

These grants amount to only 1.4% of the conditional allocation and 0.9% of the total revenue sharing pool.

1) Recreation Program

The original objective behind the conditional recreation grant program was to promote intermunicipal co-operation in the planning of recreation facilities and sharing of their operating and maintenance costs. The fact that 70% of rural municipalities and 60% of urban municipalities are parties to agreements under this program could be pointed to as an indication of the success of the program.

Critics of the program argue that there is relatively little intermunicipal co-operation in the operation and maintenance of recreation facilities and that agreements were entered into largely to meet the formalities of eligibility for the grant. Critics argue further that almost without exception the intermunicipal payments only reach the level necessary to qualify for the maximum grant under the program. It is suggested that if the program had accomplished its objectives, sharing of costs would go beyond the modest dollar levels necessary to take advantage of the grants. It is suggested further that a grant which provides less than $1,000 to each rural municipality cannot be expected to have much impact.

The Commission does not believe that the program has had a large impact, but at the same time, whatever impact it has had has been in an appropriate direction. The Commission is reluctant to conclude that the program be terminated because to do so may remove the "glue" that holds together current arrangements, whatever the marginal impact may be.

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[22] For the 1985 revenue sharing calculation, the total local share of expenditures recognized was $47.0 million for maintenance and $44.4 million for construction.

2) Fire Protection Program

The intermunicipal fire protection program was likewise designed to promote intermunicipal co-operation and cost sharing for the service. The fact the 90% of rural municipalities and 71% of urban municipalities are parties to agreements under this program is significant.The non-grant incentives to maintain intermunicipal co-operation in this area may be sufficient to keep such co-operation intact even without a conditional grant program.However, the Commission believes that the program exerts influences in the proper direction and sees little to be gained by a discontinuation of the program.

6. OPTIONS FOR GREATER EQUALIZATION

An important conclusion reached by the Commission is that there is need for substantially greater fairness in the allocation of monies from the rural revenue sharing pool to individual municipalities. The key to greater equity is to implement fully the equalization grant. The current equalization grant is based on sound principles and is well designed. While some improvements could be made to its structure, the primary requirement is that more monies be distributed to municipalities through that particular formula.

The Commission examined several options for achieving greater equalization, and a description of these options is set out below.[23]

A. Options Without Additional Monies in the Rural Revenue Sharing Pool

The Commission examined a number of options under which greater equalization might be achieved using the same amount of monies in the rural revenue sharing pool, by changing certain components in the formula and by reallocating some monies from other revenue sharing grants to the equalization grant formula. Some of those options are as follows:

1) Option 1: Retain the Basic Grant, but Treat It as Recognized Revenue

Under this option, the conditional grants and the basic grant would remain unchanged. The equalization formula would remain unchanged, except that the basic grant would be considered as revenue (or a deduction from the standard annual service cost) in the same way that the conditional grants are considered as revenue.

The effects of this option would be:

- It would have no impact on the 39 relatively wealthy municipalities which currently receive no equalization.
- It would increase by 5 the number of municipalities receiving no equalization.
- It would reduce equalization grants slightly for 120 municipalities, most of which are of above-average wealth.
- It would increase equalization grants for the remaining 135 municipalities, nearly all of which are of below-average wealth. Some would receive up to about $5,000 in additional equalization grants.
- No individual municipality would lose more than about $3,000.
- It would have no impact on the mill rate requirements of the 15 most wealthy municipalities, which could continue to meet their standard annual expenditure requirements with an average of 52.1 mills. The 15 least wealthy municipalities could meet their standard annual expenditure requirement with an average of 138.8 mills, a reduction of about 2 mills.[24]
- Municipalities eligible for equalization would receive 47.4% of their theoretical equalization entitlement compared to 43.7% under the 1985 arrangements.

The changes which would be brought about by this option would improve overall equalization, but only slightly. There would still be major differences in the mill rates required to meet standard expenditure by the most wealthy and least wealthy municipalities.

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[23] All options use the 1985 distribution of monies as a basis of comparison. Appendix III-15 provides a summary of the options examined.

[24] See Appendix III-15 for a summary of the impact on the 50 and 100 most and least wealthy municipalities. The appendix shows the impact in the 15, 50 and 100 most and least wealthy municipalities for all options examined.

2) Option 2: Eliminate the Basic Grant

Under this option, the conditional grants would remain unchanged, the basic grant would be eliminated, and the monies from the basic grant would be added to the equalization grant.

The effects of this option would be as follows:

- It would result in a reduction in grants to 126 municipalities of above-average wealth, changes equivalent to less than 1/10 of 1 mill for 7 other municipalities, and increases for 166 other municipalities, mainly those of lower than average wealth.
- The 15 most wealthy municipalities would lose an average of $12,209. To meet their standard annual expenditures, they would have to increase their mill rates by an average of 1.6 mills to an overall average of 53.7 mills.

  The 15 least wealthy municipalities would gain an average of $9,438 and would be able to reduce the mill rate required to meet the standard annual expenditure by an average of 5.8 mills to an overall average of 134.9 mills.
- Municipalities eligible for equalization would receive 52.9% of their theoretical entitlement.

The elimination of the basic grant would improve overall equalization, but only slightly. There would be only a slight narrowing of the differences between the most wealthy and least wealthy municipalities, in terms of mill rates required to meet the standard annual expenditures.

The elimination of the basic grant would improve equalization more than simply treating the basic grant as recognized expenditure in the calculation of the equalization grant.

3) Option 3: Eliminate Basic and Reduce Conditional Grants

Under this option, not only would the basic grant be eliminated, but there would be a reduction in the conditional road construction grants, and the savings would be reallocated to the equalization grant.

Any number of new formulas could be designed under which there would be lower overall road construction grants. For illustrative purposes, the Commission assumed that the same percentages would apply to all municipalities, and assumed that the grants would be at the rate of 30% for main farm access roads, 40% for grid roads, and 50% for primary grid roads.

This approach would serve to reduce the overall conditional grants by 36.5%.[25]

The effects of this option would be as follows:

- Equalization grants would more than double from their 1985 level of $13.2 million to $28.6 million.
- 109 municipalities, most of which are of above-average wealth, would experience reductions in combined conditional and equalization grants, while the other 190 would receive increases.
- The 15 most wealthy municipalities would receive average decreases of $31,726 per year in combined conditional and equalization grants, while the 15 least wealthy would receive average increases of $17,283.
- In terms of impact on mill rates, the reduction in grants to the 15 most wealthy municipalities would be equivalent to an increase of an average of 4.1 mills, while the increases in grants to the 15 least wealthy municipalities would be equivalent to a mill rate decrease of 10.5 mills.
- After the new grant distribution, the 15 most wealthy municipalities would be able to meet their standard annual expenditures with mill rates averaging 56.2 mills, while the 15 least wealthy municipalities would require an average of 130.2 mills.
- Municipalities eligible for equalization grants would receive

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[25] This would be the reduction in long-term "theoretical" conditional grants. See footnotes in Appendix III-15 for explanations.

67.9% of their theoretical entitlement.

This option would improve equalization better than either of the other two options described earlier. However, in spite of a major shift from conditional grants to equalization, a major inequity would still remain between the most wealthy and least wealthy municipalities. A reduction in conditional grants serves to increase the overall theoretical equalization entitlement, and even though in this particular option the equalization grants were more than doubled, there would be sufficient equalization grants to pay only about 2/3 of the amount required to bring about full equalization.

4) Option 4: Reallocate the Equalization Grants

Under this option, the current conditional grants would be retained, but the basic grant would be eliminated and reallocated to equalization. The equalization formula would remain unchanged, except for an increase in the theoretical or computational mill rate used to calculate the equalization grants. This increase in the computational mill rate would be designed to provide the full equalization entitlement to each municipality eligible for an equalization grant. It would entail, in effect, reallocating monies to the least wealthy municipalities at the expense of all other municipalities.

Under this option, in order to keep overall grants within the 1985 aggregate level, while still providing each municipality with its full equalization entitlement, the computational mill rate would have to be increased from its 1985 level of 75 mills to 96.9 mills.

The impact of this option would be as follows:

- No municipality would have to levy a mill rate of more than 96.9 mills (the computational mill rate) in order to meet its standard annual expenditure.82 municipalities would require mill rates of less than 96.9, while the remaining 217 municipalities would require mill rates of 96.9.
- 43 municipalities which now receive some equalization would no longer receive equalization. This would make a total of 82 municipalities which would not be eligible for equalization.
- Because of the loss of the basic grant, the 15 most wealthy municipalities would experience an average drop of $12,209 in their grants. The 15 least wealthy municipalities would receive increases averaging $71,488.
- The decreases in grants would be equivalent to an average 1.6 mill increase for the 15 most wealthy municipalities and an average 43.8 mill decrease for the 15 least wealthy municipalities. The 15 most wealthy municipalities could finance their standard annual expenditures with mill rates averaging 53.7 mills, while the 15 least wealthy municipalities would require 96.9 mills.

This option would improve equalization more effectively than any of the three options identified earlier. However, the fact that many municipalities would experience significant reductions in overall conditional and equalization grants raises serious questions about the practicality and desirability of the option.

5) Summary

The Commission has concluded that the current level of funding for rural municipalities under revenue sharing is insufficient to bring about full equalization in a practical and desirable way. Under the existing level of funding options which are capable of enabling all municipalities to receive their full equalization entitlement can achieve this objective only by bringing about substantial reductions in grants to substantial numbers of municipalities. The Commission believes this is neither practical nor desirable. The Commission believes there is nothing inherently wrong with options which would provide less money to some municipalities and more money to others. However, it is the magnitude of these reductions under the various options which would be unacceptable. While it is possible to improve equalization with the current level of funding for rural revenue sharing, the Commission has concluded that it is neither practical nor desirable to attempt to implement full equalization with the current funding level.

B. Options With Additional Monies in the Revenue Sharing Pool

The Commission examined a number of options under which full equalization could be achieved through the addition of monies to the rural revenue sharing pool.Some of those options are:

1) Option 5: Keep all Components Unchanged, and Provide a Full Equalization Payout

Under this option, the conditional grants would remain unchanged, the basic grant would be retained, and the equalization formula would be retained. The only difference is that instead of paying municipalities 43.7% of their theoretical grant entitlement, they would receive 100%.

The effects of this option would be as follows:

- The total cost of the option would be $17.0 million above the 1985 level.
- The 15 most wealthy municipalities would receive no change in grant under this option because they are not eligible for equalization. They could continue to meet their standard annual expenditure requirement with an average of 52.1 mills.
- The 15 least wealthy municipalities would gain an average of $118,223 under the option, the equivalent of 71.6 mills. These municipalities could finance their standard annual expenditure requirement with local tax rates averaging 69.1 mills.[26]
- No municipality would experience a decrease in grant and, accordingly, none would be required to increase its mill rate.

While this option would provide for the full payout of the theoretical equalization entitlement, the retention of the basic grant produces the anomalous result of allowing all municipalities to have mill rates lower than the computational mill rate. Because the basic grant amounts to more in mills for a municipality with a small local tax base than for a municipality with a large local tax base, it means that many of the least wealthy municipalities would be able to finance their standard annual expenditure requirements with mill rates somewhat lower than many of the more wealthy municipalities.

2) Option 6: Retain the Conditional Grants, Eliminate the Basic Grant, and Provide a Full Equalization Payout

The only difference between this option and the previous one is that the basic grant would be eliminated.

The effects of this option would be as follows:

- The total cost of the option would be $14.3 million over and above the 1985 level.
- The 15 most wealthy municipalities would lose an average of $12,209. They would be able to finance their standard annual expenditures with an average local tax rate of 53.7 mills, an increase of 1.6 mills.
- The 15 least wealthy municipalities would gain an average of $108,426. They would be able to meet their standard annual expenditures with mill rates averaging 75 mills, the computational mill rate.
- 44 municipalities would experience an overall loss in grants. These are all municipalities which would still be able to finance their standard annual expenditure with mill rates of less than 75 mills. They are all relatively wealthy municipalities, most of which do not qualify for equalization grants.

This option would provide full equalization with no apparent anomalous results. Some relatively wealthy municipalities could finance their standard annual expenditures with less than the computational mill rate of 75 mills.

3) Option 7: Reduce Conditional Grants, Eliminate Basic Grants, and Provide Full Equalization Payout

Under this option, the conditional construction grants would be reduced. There would be a standard grant percentage for each category of road, regardless of the relative wealth of the municipality. The percentages would be 30% for main farm access roads, 40% for grid roads, and 50% for primary grid roads.

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[26] Appendix III-10 provides details of the increase in equalization grant for all municipalities under this option.However, in that particular appendix, the basic grant is ignored and, accordingly, the impact on mill rate requirements is different than if they are considered.

The basic grant would be eliminated. The computational mill rate in the foundation formula would remain unchanged. Each municipality would receive its full equalization entitlement.

The effects of this option would be as follows:

- The total cost would be $13.5 million above the 1985 level.
- 44 municipalities would receive reductions in overall grants, all but 5 of which are municipalities that did not previously qualify for equalization grants.
- The same 39 municipalities that are now ineligible for equalization would continue to be ineligible.
- No municipality would require a mill rate of more than 75 mills to meet its standard annual expenditure requirement. 39 municipalities would require less than 75 mills.
- The 15 most wealthy municipalities would receive an average reduction of $31,726 in their overall grants and would have to levy an average of 56.2 mills to meet their standard annual expenditures, an increase of 4.1 mills.
- The 15 least wealthy municipalities would receive average increases of $108,426 and would be able to meet their standard annual expenditures with mill rates of 75 mills, a reduction of 65.7 mills.

4) Option 8: Eliminate Basic Grant, Conditional Grants Vary Between 20% and 80%, and Provide Full Equalization Payout

Under this option, the same 20% to 80% range is used for the cost sharing of road construction as is currently used in sharing the costs for bridge construction. Each municipality would get a minimum of 20% provincial cost sharing, and the higher the mill rate required for the municipality to meet its standard annual expenditure requirements, the higher the grant, up to a maximum of 80%.For purposes of simplicity, the same percentage cost sharing was applied to all categories of roads. A higher percentage would be assigned to the different categories of roads if this were desired, although the general results would be much the same in terms of the overall financial impact on municipalities of different levels of wealth.

The basic grant is eliminated in this option, the computational mill rate would remain unchanged, and all municipalities would receive their full equalization entitlement.

The effects of this option would be as follows:

- The total cost would be $13.0 million above the 1985 level.
- 44 municipalities would receive reductions in overall grants, all but 6 of which are municipaliites that did not previously qualify for equalization grants.
- The number of municipalities not eligible for equalization grants would be reduced by 8.
- No municipality would require a mill rate of more than 75 mills to meet its standard annual expenditure requirement. 31 municipalities would require mill rates of less than 75 mills.
- The 15 most wealthy municipalities would receive an average reduction of $50,665 in overall grants and would have to levy an average of 58.7 mills to meet their standard annual expenditures, an increase of 6.6 mills. The 58.7 mills would still be 16.3 mills lower than the 75 mills which would be required by the vast majority of municipalities.
- The 15 least wealthy municipalities would receive average increases of $108,426 and would be able to meet their standard annual expenditures with mill rates of 75 mills, a reduction of 65.7 mills.

5) Summary

The analysis undertaken by the Commission reveals that there simply are not sufficient monies in the current revenue sharing pool to bring about full equalization with acceptable implications. There are a variety of options for bringing about greater equalization. The Commission believes, however, that one of the requirements for achieving greater equalization is an addition to the revenue sharing pool.

C. Conclusions

The Commission believes that three types of adjustments should be made in order to achieve greater equalization:

- **The basic grant should be eliminated and the funds reallocated through the equalization formula.**

  It makes little sense to provide this grant to municipalities which have a combination of large local tax bases, higher-than-average levels of services, and low mill rates, while other municipalities with smaller tax bases struggle with a combination of high mill rates and lower-than-average services. These monies would be more equitably distributed through the equalization formula.

- **The grant percentages under the conditional road construction/reconstruction programs should vary between 20% and 80%, depending on the wealth of the municipality, to correspond with the range of percentages of assistance provided under the conditional bridge grant program.**

  This change would improve equalization in two main ways:

  — It would provide a wider difference in the level of conditional road construction grants going to the most wealthy and least wealthy municipalities, thereby leaving a local share of costs which is made compatible with the ability of the municipality to finance.

  — It would reduce the overall amount of conditional grants and permit an increase in the amount which could be distributed through the equalization formula. Collectively, municipalities would not receive less, but they would receive a greater proportion of their grants in unconditional equalization grants.

- **There should be an addition of approximately $13 million to the rural revenue sharing pool.**

  The Commission believes that an addition of this approximate amount is required in order to ensure that full equalization can be achieved under acceptable circumstances.

  The Commission emphasizes a reduction in the average level of conditional grants and a reallocation to the equalization distribution cannot, in itself, provide sufficient equalization. A reduction in conditional grants increases the local share of the standard annual expenditure requirement which, in turn, increases the overall requirement for equalization grants. In other words, the less in conditional grants, the more in equalization grants which are required.

  The Commission recognizes that a range of 20% to 80% in conditional road construction grants represents a major change to existing programs, and that some will argue that changes of this magnitude would be too disruptive. On the other hand, others would argue that occasionally major changes are required in order to implement important principles.

  Some would argue that such reductions would be unfair because many municipalities have already either completed or have nearly completed their designated networks using the higher grant percentages, while municipalities which have completed a small percentage of their designated network would be required to accept smaller grant percentages in completing their networks. A counter-argument is that those municipalities which most need provincial assistance to complete their networks would receive more overall assistance (considering greatly improved equalization) to help finance the undertaking.

  It may be necessary to provide a form of "grandfathering" in regard to the percentage of assistance on the designated road network. For example, those municipalities which have a lower-than-average percentage of their designated road network completed, might be provided with grants based on the old percentages until the municipality had reached the average stage of completion of the designated network.

7. CONCLUSIONS/RECOMMENDATIONS

The Commission has reached the following general observations and conclusions:

- **There are gross inequities in the funding of municipalities under the current allocations of**

rural revenue sharing monies. Numerous municipalities with large local tax bases are able to provide better-than-average services with very low mill rates, while numerous other municipalities currently suffer from a combination of relatively high mill rates and lower-than-average standards of services.

To illustrate the inequities under the current funding arrangements, it was noted earlier that the 15 most wealthy municipalities spend an average of 27% more than their standard annual expenditure requirements, and are able to do so with mill rates averaging 64.9 mills. On the other hand, the 15 least wealthy municipalities spend an average 27% less than their standard annual expenditures and require mill rates averaging a much higher 110 mills in order to finance those lower levels of expenditure.

The Commission believes that these inequities have much to do with the controversies over the use of the property tax.

- **Conditional road construction and maintenance grant programs need to be retained. This is necessary in order to help serve the broad provincial interest in having an integrated intermunicipal designated road system that is constructed and maintained to required standards.** Where there are interests to be served that go beyond the boundaries of individual municipalities, it is appropriate that certain grants be tied to conditions to help ensure that those interests are in fact served.
- **The percentages of assistance for constructing roads that are part of the designated road network are so high and such a high proportion of overall revenue sharing payments are provided for road construction that municipalities are given an extremely strong incentive to give the highest priority to constructing more and more roads.** Individual municipalities may have a need for reconstruction of certain roads, for more intensive maintenance of certain roads, or for expenditures not related to transportation, but the conditional grant system strongly steers municipalities away from such expenditures in favour of the construction of designated roads.
- **The equalization grant program is based on sound principles and the formula is well designed.**
- **There are insufficient monies in the rural revenue sharing pool to permit the achievement of full equalization under acceptable circumstances.**
- **Three initiatives should be taken to achieve greater equalization:**

  — **The basic grants should be eliminated.**

  The monies currently distributed under the basic grant could be more equitably distributed under the equalization formula.

  — **The grant percentages under the conditional road construction programs should vary between 20% and 80%, depending on the wealth of the municipality, to correspond with the range of percentages of assistance provided under the bridge grant program.**

  This broader range in percentages of assistance would achieve four main things:

    — It would achieve greater equalization in the conditional construction grants themselves.

    — It would reduce the average percentage of sharing under the conditional construction grants, thereby freeing up more monies for distribution under the equalization formula.

    — It would reduce the amount of encouragement in the overall grant structure for the construction of designated roads. Municipalities would forego less in grants if they decided to put more of their priorities in other areas.

    — It would increase the amount of unconditional funding of rural municipalities, thereby increasing their autonomy.

  — **An addition of approximately $13 million should be made to the rural revenue sharing pool.**

  Based on an analysis of options, the Commission believes that an addition of approximately this amount to the revenue sharing pool is required in order to achieve full equalization and, at the same time, ensure that individual municipalities do not experience unacceptable levels of reductions in grants.

- **The equalization formula should be adjusted to give more adequate recognition to the costs, particularly high road maintenance costs, faced by certain municipalities.**

Maintenance of roads in the oil patch are a prime example of costs which can be well above the norm.

The flexibility that can be exercised in the equalization formula should be used to give recognition to the particular situations where major additional costs are faced by municipalities.

- **The present hamlet grants, maintenance grants, bridge grants, and intermunicipal fire protection and recreation grants should be retained.**

The maintenance grant should be only at that level that is necessary to ensure that there is sufficient incentive for municipalities to keep their designated roads maintained to standard. The bulk of the assistance for maintenance of roads should continue to be incorporated into the expenditures recognized in the equalization calculation.

The bridge grants are well designed and should be retained. The intermunicipal fire protection and recreation grants provide at least modest encouragement for intermunicipal co-operation and should be retained.

- **The Commission recommends that there be a fundamental re-examination of the designated road system in light of rail line abandonment and greater centralization of grain delivery points.**

The construction of roads is expensive and it takes a long time to put a total road network in place. Because of this great expense, it is essential that the monies be allocated to where they are most needed. A re-examination of road needs in light of recent developments may yield a different set of priorities.This different set of priorities could lead to a different set of percentages of assistance for different types of roads. The high volume, heavy haul roads need particular attention.

- **The equalization formula should be examined for the possible addition of recognized expenditures for items additional to those which relate to administration and transportation.**

Municipalities do have responsibility for areas other than transportation and they should be recognized, provided that an acceptable means can be developed to quantify them reasonably objectively.

- **Administration costs in the equalization formula should be based on average administration costs of similar-sized municipalities, rather than on the actual administration expenditures in the municipality.**

Under the current practices, the more a municipality spends on administration, the higher its equalization grant. The Commission believes that a grant formula should be as neutral as possible in its effects on the spending decisions of municipalities.

CHAPTER THREE

URBAN REVENUE SHARING

Part I, Chapter Two, provided a financial overview of local governments. Chapter One of this part provided some background on the revenue sharing concept.

This chapter provides an analysis of the mechanisms that are used to allocate the urban revenue sharing pool among individual urban municipalities.

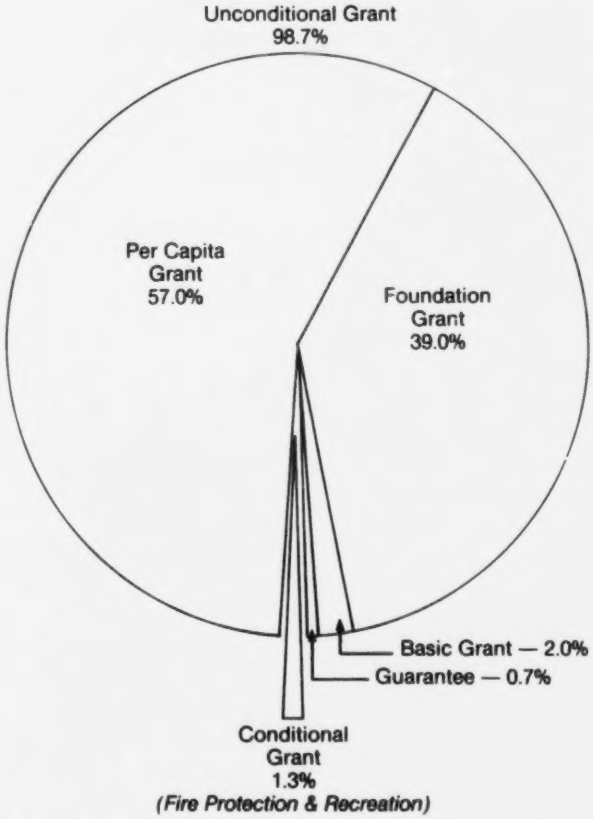
1. REVENUE SHARING PAYMENTS - MAINLY UNCONDITIONAL

Monies are distributed to urban municipalities from the urban revenue sharing pool on primarily an unconditional basis. In 1985, only 1.3% of the revenue sharing payments were made on a conditional basis, which contrasts with rural municipal revenue sharing payments of which 65% were paid on a conditional basis in the same year.

The allocation of dollars in the urban revenue sharing pool in 1985-86 is shown below and in percentage terms in Chart III-4.

Type of Distribution		**Amount**
Conditional		
Fire Protection	$ 285,000	
Recreation	541,000	$ 826,000
Unconditional		
Per Capita	$37,122,000	
Foundation	25,431,000	
Basic	1,323,000	
Guarantee	469,000	64,345,000
TOTAL		$65,171,000

CHART III-4
PERCENTAGE DISTRIBUTION OF URBAN REVENUE SHARING
1985-86



2. CONDITIONAL GRANTS[1] — A DESCRIPTION

The intermunicipal fire protection and recreation programs are designed to promote joint activity and intermunicipal co-operation in the provision of fire protection and in the operation and maintenance of recreation facilities.

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[1] As noted in the previous chapter, the term "grants" is used rather than the lengthier but more descriptive term "revenue sharing payments". The difference between "grants" and "revenue sharing payments" was set out in Chapter One, which dealt with the revenue sharing concept.

Under the intermunicipal fire protection program, a municipality which has a signed agreement with at least one other municipality governing the provision of services is eligible for a grant of $1 per capita, up to a maximum of $10,000. Approximately 90% of rural municipalities and 70% of urban municipalities participate in this program.

Under the intermunicipal recreation program, a municipality which has a written agreement with at least one other municipality governing the sharing of operating and maintenance costs of designated recreation facilities is eligible for a grant of 50% of expenditures under the agreement, up to a maximum of $100 plus $1.00 per capita for the first 15,000 population, $0.75 for the next 15,000 population, and $0.50 for the balance of the population. Approximately 70% of the rural municipalities and 60% of the urban municipalities participate in this program.

3. UNCONDITIONAL GRANTS — A DESCRIPTION

A. Per Capita Grant

The per capita grant is simply a standard amount that is paid to each urban municipality for each permanent resident of the municipality. For 1985, the grant was $54.45 per capita, based on the 1981 federal census population. Approximately 58% of the unconditional revenue sharing allocation was paid through the per capita component in 1985.

B. Foundation Grant

1) Purpose of Foundation Grant

The purpose of the foundation grant is to provide a greater degree of equality among the more wealthy and less wealthy municipalities of comparable populations in terms of their ability to provide a reasonable level of municipal services at reasonable local tax rates. The foundation grant is based on the principle of equalization and could be referred to as "the equalization grant". To achieve the purpose behind equalization, more assistance is provided to the less wealthy municipalities than to the wealthy municipalities. In this way, the former have a greater opportunity to provide services comparable to those in the wealthy communities, without having to levy unduly high local tax rates.

2) How the Foundation Grant is Calculated

The foundation grant is calculated on a basis which is conceptually similar to that of the foundation grant for school divisions and the equalization grant for rural municipalities. A formula is used to determine a reasonable level of expenditure (called "recognized expenditure") for each municipality. A formula also is used to determine a reasonable number of mills on the local tax base which the taxpayers of each municipality should be expected to contribute to meet the recognized expenditures. This local contribution is called "recognized local revenue". The grant to a municipality is the difference between recognized expenditures and recognized local revenue.

If the recognized local revenue of a municipality is equal to or greater than the recognized expenditure, then no grant is payable under the foundation formula. On the other hand, if there is a difference between recognized expenditures and recognized local revenues, then a foundation grant is paid. The larger the difference, the larger the grant.

3) Used Only to Calculate Grants

The recognized expenditures and recognized local revenues are used only for the purpose of calculating grants, and there is no obligation for municipalities to spend or set local tax rates at the levels used in the grant calculations. A decision by a municipality to set an expenditure level or a mill rate that differs from that which is used in the calculation of the grant has no impact on the amount of grant payable.

4) Recognized Expenditures

Recognized expenditures fall in two main categories:

- General Municipal Expenditures;
- Police Protection.

The general municipal expenditures category is intended to cover all types of operating expenditures of municipalities, except utilities and police protection services. It was found that larger communities spend larger amounts per capita (reflecting the greater range of services that larger communities provide). A formula has been developed to arrive at a reasonable level of general municipal expenditure based on the population of the community and the average actual expenditure for municipalities of various population groupings.[2] Under the 1985 formula, the recognized expenditure for general municipal services ranges from about $190 per capita for towns or villages of about 300 population, to over $400 per capita for a city in excess of 160,000 population.

Very small communities also tend to spend large amounts per capita, largely because there are certain basic costs that are incurred regardless of the population size.Accordingly, a base amount (approximately $5,600 in 1985) is added to the per capita amount for such communities.

Urban municipalities of less than 500 population and rural municipalities are provided with Royal Canadian Mounted Police services under the terms of an agreement between the provincial and federal governments. These municipalities are not required to pay for any portion of those costs. Municipalities in excess of 500 population incur police expenditures under a variety of arrangements.[3]

A formula based on population and actual average expenditure on police services by municipalities in various population groupings determines the amount of police expenditures to be recognized under the foundation grant. The larger the population of the municipality, the larger the per capita amount of police expenditure which is recognized. The per capita amounts in 1985 ranged from $35 per capita for a municipality of 500 population to $122 per capita for a municipality of 160,000 population.

The amounts recognized for general municipal expenditures are added to the amounts recognized for police expenditures to arrive at a total recognized expenditure for each municipality.

5) Recognized Local Revenues

Recognized local revenues fall into two main categories:

- Monies which can be raised by applying a mill rate (called the computational mill rate) to the local assessment base.
- Grants-in-lieu of taxes, trailer licence fees, revenues from tax sharing on potash mines.

As noted above, the per capita amount of recognized expenditure for general municipal and police services is higher for the larger communities, reflecting the more extensive level and range of services in those larger communities. The question arises as to how much each community should be expected to raise from its own tax base as a contribution toward financing those levels of expenditure. Another way of putting the question is what mill rate should the taxpayers in various municipalities be expected to pay to finance their local services? Two principles underlying the urban municipal foundation formula govern the answer to these questions.

- Taxpayers in municipalities of similar populations and similar levels of services should be expected to pay similar mill rates in meeting the costs of those services.
- Taxpayers in larger communities with higher levels of services should be expected to pay higher mill rates in meeting the costs of those higher levels of services.

In accordance with these principles, a schedule of computational mill rates is developed.[4] The smaller the community, the lower the computational mill rate, and the larger the community, the larger the computational mill rate. For example, in the 1985 formula, the computational mill rate ranges from 53 mills for the smallest communities to 138 mills for a city of 160,000 population.

The computational mill rate is multiplied by the equalized assessment base for the municipality to obtain the amount of local taxation which the municipality could be expected to raise in meeting the recognized expenditures. Actual grants-in-lieu of taxes, trailer licence fees, and revenues obtained under potash mine tax sharing arrangements are added to the calculated amount of local property tax revenue to obtain total recognized local revenue.

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[2] The formulas used to determine recognized police and general municipal expenditures are a series of regression formulas based on the population and actual expenditures of all municipalities on these two categories of services. See Appendix III-16 for an outline of the 1985 equations.

[3] See Appendix III-17 for a description of those arrangements.

[4] The term "computational" mill rate is used because it is used only as a basis of "computing" the foundation grant. A municipality is not obligated to set that mill rate. See Appendix III-16 for the formula used to arrive at the computational mill rate for each community.

6) Pictorial Description of Foundation Formula

Chart III-5 is a pictorial description of the foundation grant concept. Certain assumptions are made for the purpose of simplifying the illustration and identifying the fundamental concepts. It is assumed that three different urban municipalities, "A", "B", and "C" each have identical populations of 1,600, but that they have quite different local tax bases. It is assumed that municipality "A", "B", and "C" have equalized assessments of $2,000,000, $4,000,000 and $5,000,000, respectively, and that none of them has any grants-in-lieu of taxes nor trailer licence fees.

Under the 1985 foundation formula, each municipality would have a recognized expenditure of approximately $500,000.[5] The computational mill rate would also be 90 mills for each of the municipalities.

Municipality "A" could raise $180,000 with a tax rate of 90 mills, leaving a $320,000 theoretical foundation grant entitlement to make up the balance of the $500,000 expenditure requirement.

Municipality "B" with twice as big a local tax base as municipality "A", could raise $360,000 with a local tax rate of 90 mills, leaving a theoretical foundation grant entitlement of $140,000 to make up the balance of the $500,000 expenditure requirement. Municipality "C", with the largest local tax base, could raise $450,000 from a levy of 90 mills, leaving a theoretical foundation grant entitlement of only $50,000 to make up the balance of the $500,000 expenditure requirement.

If each municipality were to receive its full foundation grant entitlement, each municipality would receive enough in grants to compensate for the variations in their local tax bases. Each would be able to finance its $500,000 expenditure requirement with a local tax rate of 90 mills.

The foregoing illustrates the essence of the foundation concept. Each municipality of approximately the same size is able to provide roughly the same level of services with about the same mill rate, even though their local tax bases vary considerably.

7) Partial Equalization

It would have cost approximately $80 million in foundation grants if the full theoretical entitlement were paid to each municipality eligible for a foundation grant. Because only $25.4 million was allocated to the foundation grant from the urban revenue sharing pool, only a portion of the theoretical equalization entitlements could be paid. Accordingly, each municipality was given 32.14% of its theoretical entitlement.

The implications of the payment of only the partial foundation grant are portrayed in Chart III-6.

Municipality "A" would have a revenue shortfall of $217,152, after a levy of 90 mills and after receiving a foundation grant of $102,848 (32.14% of $320,000). Municipalities "B" and "C" would have shortfalls of $95,004 and $33,930, respectively.

Ignoring for a moment the availability of the per capita and basic grants, it can be seen that the shortfalls are the largest for the municipality with the smallest local tax base. The shortfall is equivalent to 109 mills for municipality "A", 24 mills for municipality "B", and 7 mills for municipality "C". If municipalities had only the local tax base and foundation grants to finance their expenditures, in order to meet the $500,000 recognized expenditure, municipality "A" would require a total of 199 mills (90 + 109), municipality "B" would require 114 mills (90 + 24), and municipality "C" would require 97 mills (90 + 7). In other words, the municipalities with the relatively small local tax bases suffer most from the payment of only a partial foundation grant.

C. Basic Grant

The basic grant in 1985 amounted to $2,075 for municipalities up to a population of 149, $2,760 for municipalities with populations between 150 and 299, and $3,000 for municipalities with populations of 300 or more.

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[5] The precise amount is $505,600, but this is rounded off to $500,000 for simplicity of presentation.

CHART III-5

DESCRIPTION OF FOUNDATION GRANT CONCEPT - FULL EQUALIZATION

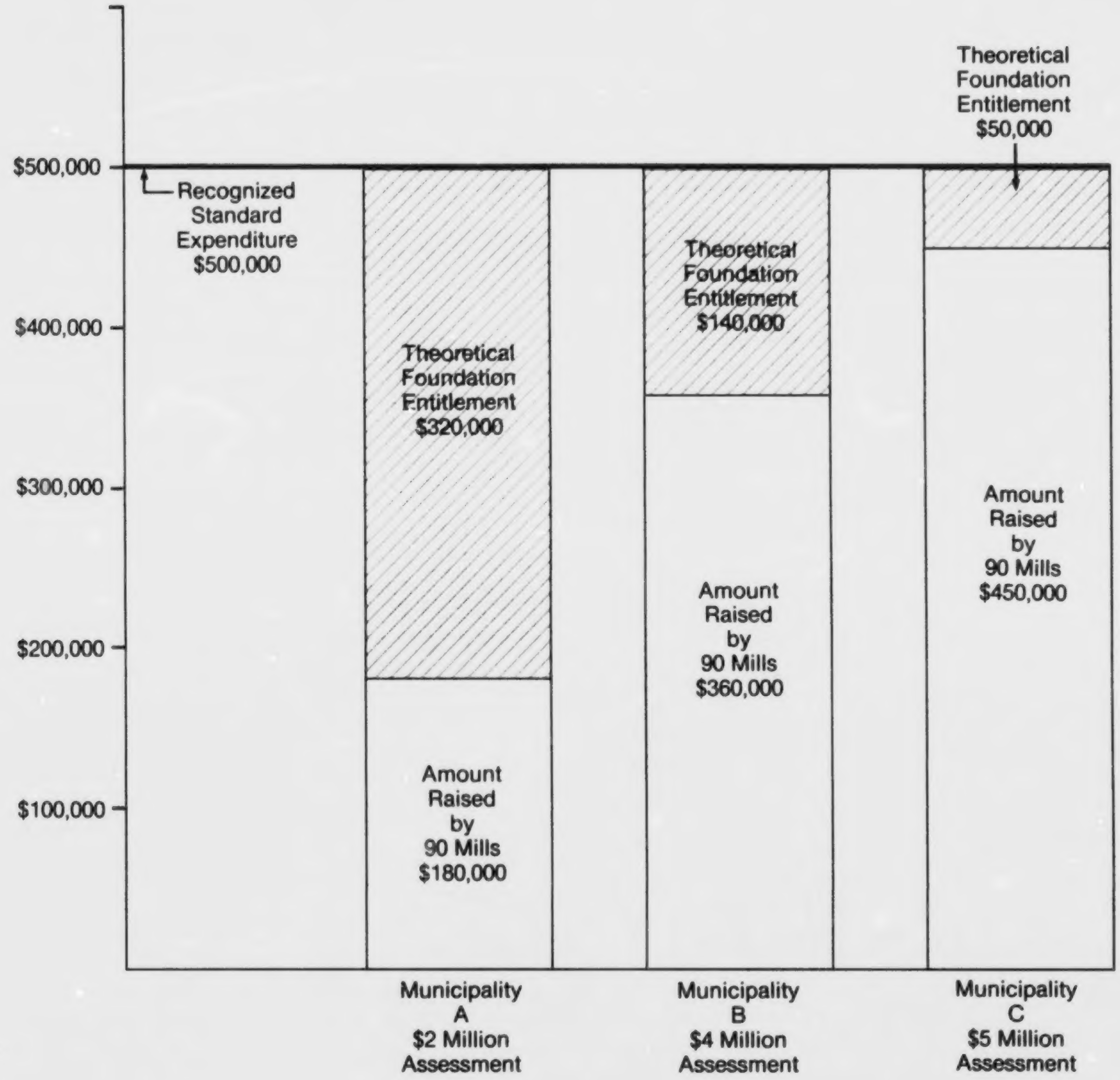
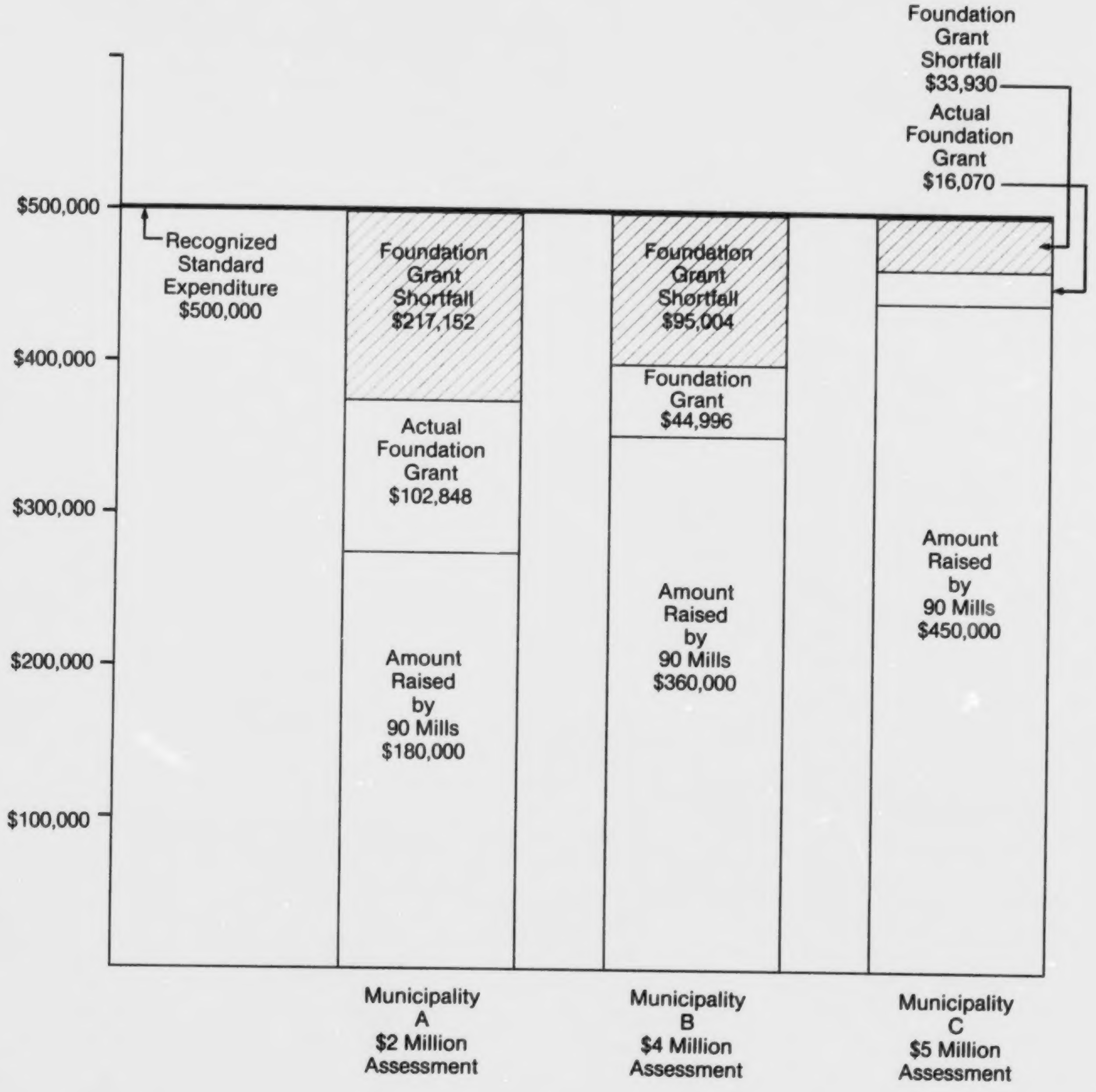


CHART III-6
DESCRIPTION OF FOUNDATION GRANT CONCEPT - PARTIAL EQUALIZATION



The basic grant is intended to assist the very small communities, and was implemented for two reasons:

- The very small community tends to have certain overhead costs that do not vary in direct proportion to the size of the population. The basic grant gives recognition to such overhead costs.
- Both the per capita grant and the recognized expenditure in the foundation formula are based on population. Population alone is not a sufficient reflection of need for municipalities with very small populations.

D. Guarantee

In 1985, the amount of the revenue sharing grant payable to individual municipalities was guaranteed to be at least as much money as they received in the previous year. This meant that no municipality received less money than it received in 1984. The guarantee was applied to 116 communities at a total cost of $469,085. Since the cost of the guarantee was paid out of the revenue sharing pool, the guarantee simply redistributed money among urban municipalities at no additional cost to the Province.

There was also a guarantee, or grandfather provision that no municipality was to receive less money than it received in 1977 under the three programs which were rolled into urban revenue sharing.[6]

4. COMMENTS/EVALUATION - CONDITIONAL GRANTS

The Commission made evaluative commentary on the municipal fire protection and recreation programs in the previous chapter. Although the magnitude of the overall impact of the program might be questioned and although, as a general principle, the Commission favours unconditional grants, those particular programs are only about 1.3% of total revenue sharing and they do encourage intermunicipal co-operation. In short, the Commission recommends that these programs be retained.

5. COMMENTS/EVALUATION - UNCONDITIONAL GRANTS

A. Is Equalization Needed?

Chart III-5 outlined three hypothetical municipalities, all with the same population, but each of which had quite different local tax bases. In the absence of any type of provincial grant, municipalities "A", "B", and "C" would have required mill rates of 250, 125, and 100, respectively in order to meet the standard level of expenditure.

Payment of full foundation grants would compensate for the variation in local tax bases, and would enable each of those hypothetical municipalities to meet the standard level of expenditures with the same mill rate of 90 mills.

Although the need for equalization is apparent in regard to the hypothetical municipalities, the question arises as to whether this need exists in the "real world". The question is whether or not urban municipalities actually have widely varying fiscal capacities.

Mills Required to Finance Standard Expenditures

The Commission divided urban municipalities into several population categories and examined the mill rates that each municipality would be required to levy in order to finance the standard level of expenditure[7] recognized in the foundation formula, assuming that there were no provincial grants, but taking into account any grants-in-lieu of taxes, trailer licence fees, or potash mine tax sharing that they might receive. Municipalities which could finance the standard level of expenditure with a relatively low mill rate could be considered to be relatively wealthy. On the other hand, municipalities which would require relatively high mill rates to finance the standard level of expenditure could be considered to be the least wealthy municipalities.

The Commission found that there were wide variations in the fiscal capacity of municipalities. As indicated in Table III-4, the most wealthy municipalities in the 1 - 100 population category could finance the standard level of expenditure with mill rates averaging 68.5 mills, while the least wealthy municipalities would require average mill rates of 175.2 mills to meet the same standard, a difference in excess of 100 mills.Similarly, for the 101 to 250 population grouping, the mill rates required for the most wealthy and least wealthy are 75.7 mills and 176.5 mills respectively, also a difference of about 100 mills. Large differences also exist in regard to the communities in the 501 to 1,000 and 1,001 to 5,000 population groupings.[8] See Chart III-7 for a pictorial description of these mill rates.

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[6] Alsask is the only municipality guaranteed under this provision. This provision was implemented because the population of a self-contained radar base in the community is no longer included in the municipality's total population for revenue sharing purposes, and the exclusion would otherwise have the effect of causing the municipality to experience a major reduction in grant.

[7] It is important to note that the standard recognized expenditures are based, in effect, on actual average expenditures of municipalities in the various population groupings.

TABLE III-4

MILLS REQUIRED TO MEET STANDARD EXPENDITURES (IN THE ABSENCE OF PROVINCIAL GRANTS)

Population Category	Average for Most Wealthy Municipalities	Average for Least Wealthy Municipalities	Difference Between Least Wealthy and Most Wealthy Municipalities
1 - 100	68.5 mills	175.2 mills	106.7 mills
101 - 250	75.7	176.5	100.8
251 - 500	82.3	128.7	66.4
501 - 1,000	101.5	181.4	79.9
1,001 - 1,500	117.6	192.5	74.9
1,501 - 5,000	121.2	202.6	81.4

NOTES:

(1) All averages are simple, not weighted, averages.

(2) Because of the unusual population characteristics of resort communities, they were excluded from this table and other similar tables in this chapter.

(3) The 10 most wealthy and 10 least wealthy municipalities were used in calculating the averages in all population categories except for the latter two. In the latter two, the five most and least wealthy were used because of the fewer number of municipalities in the category.

(4) The population category of above 5,000 was excluded from this table because of the great differences in the computational mill rates and the few municipalities in the category.

(5) The municipalities were ranked by wealth according to the mill rates they would require to finance their standard expenditures, as a percentage of their computational mill rate.

(6) As noted earlier, the larger the population of the municipality, the higher the computational mill rate that is used in the calculation of the foundation grant. See Appendix III-19 for the average computational mill rates of the most wealthy and least wealthy municipalities in the various population groupings.

Another way of analyzing the degree of disparity in the fiscal capacity of municipalities is to compare the mill rate required to meet the standard expenditure, with the computational mill rate used in the foundation grant calculation. This is a more useful method of comparing fiscal capacities of municipalities of varying population sizes because it can be expected that both service levels, expenditure levels and mill rates are generally higher in the larger communities, and the computational mill rates are higher for the larger communities. Table III-5 provides a comparison between the wealthy and least wealthy municipalities in terms of their required mill rate as a percentage of the computational mill rate.

TABLE III-5

MILLS REQUIRED TO MEET STANDARD EXPENDITURES AS A PERCENTAGE OF COMPUTATIONAL MILL RATE (IN THE ABSENCE OF PROVINCIAL GRANTS)

Population Category	Average for Most Wealthy Municipalities	Average for Least Wealthy Municipalities	Difference Between Least Wealthy and Most Wealthy Municipalities
1 - 100	125.6%	322.6%	197.0 *% points*
101 - 250	134.1	313.5	179.4
251 - 500	123.1	203.1	80.0
501 - 1,000	147.7	263.9	116.2
1,001 - 1,500	153.5	271.0	117.5
1,501 - 5,000	115.5	205.6	90.1
Over 5,000	113.7	160.8	47.1

NOTES:

(1) The notes under Table III-4 also apply to this table, except that in this table, the over 5,000 population grouping is used. In this grouping, the individual most wealthy and individual least wealthy cities are used instead of averages for a larger number. The large differences among cities in the computational mill rate does not distort the analysis in this table because required mill rates are expressed as a percentage of the computational mill rates.

(2) Data on the City of Lloydminster are excluded in this and other similar tables because their receipt of grants from the Province of Alberta provides a lack of comparability with other cities.

(3) See Appendix III-19 for the average computational mill rates for the most wealthy and least wealthy municipalities in each population category.

The mill rates required all exceed the computational mill rate, but the excess is much greater for the least wealthy municipalities than for the wealthy municipalities.

From the foregoing data, the following conclusions can be drawn:

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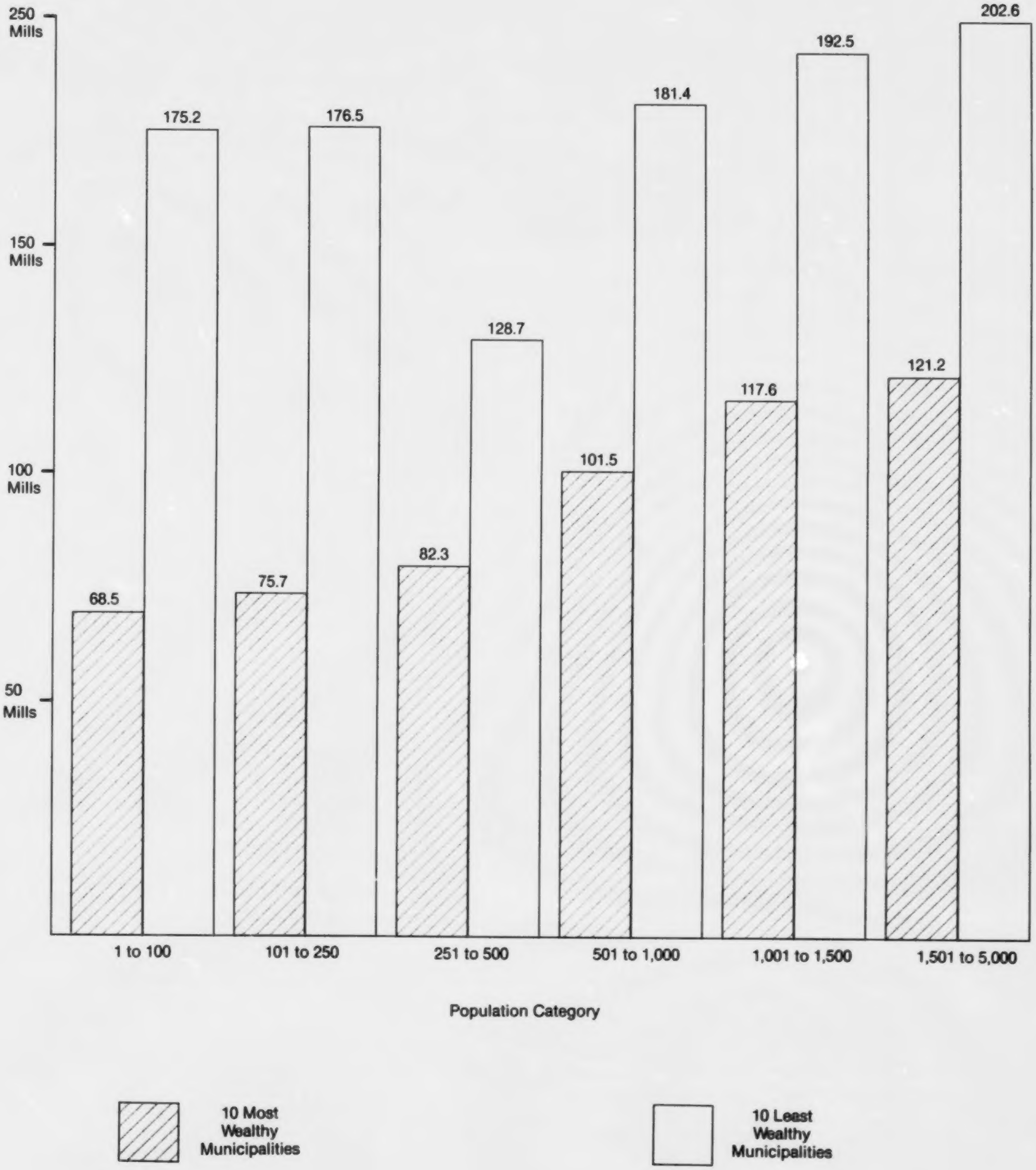
[8] See Appendix III-18 for examples of specific municipalities with contrasting fiscal capacities.

CHART III-7

MILLS REQUIRED TO MEET STANDARD EXPENDITURE (IN ABSENCE OF PROVINCIAL GRANTS)



- There are indeed wide variations in the local fiscal capacities of urban municipalities.

- In the absence of provincial grants, many municipalities with small local tax bases would be forced either to have excessively high mill rates, or would have to opt for lower expenditures (and hence lower levels of service) in relation to other communities of a similar size, or both high mill rates and lower services.

- To promote greater equality of opportunity for municipalities of similar size to offer similar levels of service at comparable mill rates, revenue sharing payments must have the effect of equalizing the overall fiscal capacity of municipalities.

B. The Extent of Equalization

From the preceding sections, it is apparent that there are substantial variations in the fiscal capacities of urban municipalities and that there is a need for provincial payments to equalize the ability of municipalities to provide a reasonable level of services at mill rates comparable to municipalities of a similar size.

In evaluating the extent of equalization in the urban revenue sharing program, the Commission asked the following questions:

- To what extent do each of the basic, per capita, and foundation grants provide equalization?
- What is the overall level of equalization under current programs and policies?
- Is there a need for greater equalization?
- If there is a need for greater equalization, how can it be best brought about?

In Table III-6, the average mill rate required to meet the standard recognized expenditure, is expressed as a percentage of the computational mill rate, both for the most wealthy and the least wealthy municipalities. For example, in the 1 - 100 population category, the most wealthy municipalities would require mill rates averaging 126% of the computational mill rate to meet the standard expenditure if there were no grants paid, while the least wealthy municipalities would require mill rates of 323% of the computational mill rate. The payment of the basic grant would allow the most wealthy communities to meet the standard expenditure with an average mill rate of 105% of the computational mill rate, and the least wealthy municipalities would require mill rates averaging 264% of the computational mill rate.

Table III-7 is derived from Table III-6 and displays the difference between the most wealthy and least wealthy communities in terms of percentage points. For example, from Table III-6, it is seen that in the 501 to 1,000 population group, in the absence of provincial grants, the most wealthy municipalities would require mill rates averaging 148% of the computational mill rate, while the least wealthy municipalities would require mill rates averaging 264% of the computational mill rate. This is a difference of 116 percentage points. These differences in percentage points between the most wealthy and least wealthy municipalities are shown in Table III-7.

Full or complete equalization occurs when there is no difference between the mill rates which the most wealthy and least wealthy municialities would require to meet their standard expenditures, after taking grants into account. The degree of equalization brought about by a grant can be measured by the extent to which it brings about equality in the mill rates required by municipalities with different wealth.

1) Basic Grant

The basic grant is designed to assist the smaller communities and is based only on the size of the community. Considering that the maximum basic grant in 1985 was $3,000, it is obvious that it has little impact on the larger municipalities.

Tables III-6 and III-7 show the average mill rate requirements of municipalities in different population groupings, both in the absence of any provincial revenue sharing grants and with the basic grant. For the 1 to 100 population group, the basic grant reduces the disparity in mill rate requirements between the most wealthy and least wealthy municipalities from 197 percentage points to 159 percentage points. For the 101 to 250 population group, the disparity is reduced from 180 to 163 percentage points. For municipalities in the population groupings in excess of 500, there is relatively little impact.

TABLE III-6

MILL RATE REQUIRED TO MEET STANDARD EXPENDITURES AS A PERCENTAGE OF THE COMPUTATIONAL MILL RATE MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

Population Category	Before Grants		After Basic Grant Only		After Basic and Per Capita Grants		After Basic Per Capita and Foundation Grants (Partial Equalization)*	
	Most Wealthy	Least Wealthy	Most Wealthy	Least Wealthy	Most Wealthy	Least Wealthy	Most Wealthy	Least Wealthy
1 - 100	126%	323%	105%	264%	75%	192%	67%	121%
101 - 250	134	314	124	287	87	200	76	131
251 - 500	123	210	118	199	81	138	74	102
501 - 1,000	148	264	145	259	111	200	95	147
1,001 - 1,500	154	271	152	269	122	217	105	162
1,501 - 5,000	116	206	115	205	96	169	90	135
Over 5,000	114	161	114	161	99	143	95	123

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*These are the figures that would have occurred had the 1985 equalization formula actually been used to allocate the grants. Since 1983-84, the provincial government has applied an across-the-board approach to distributing foundation grants. In 1983-84, all municipalities received a 7% increase, a 5% increase in 1984-85, no increase in 1985-86, and a 3% increase in 1986-87. Only 32.14% of the foundation entitlement of each municipality was paid in 1985

NOTES: The notes in Table III-4 apply to this table, except in regard to the over 5,000 population category, for which the footnotes in Table III-5 apply.

See Appendix III-19 for the average computational mill rates for the most wealthy and least wealthy municipalities by population category.

TABLE III-7

IMPACT OF VARIOUS GRANTS ON DIFFERENCE IN MILLS REQUIRED TO FINANCE STANDARD EXPENDITURES MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

Population Category	Difference in Percentage Points Between Most Wealthy and Least Wealthy Municipalities			
	Before Grants	After Basic Grant Only	After Basic and Per Capita Grants	After Basic, Per Capita and Foundation Grants (Partial Equalization)
1 - 100	197 % points	159 % points	117 % points	54 % points
101 - 250	180	163	113	55
251 - 500	87	81	57	28
501 - 1,000	116	114	89	52
1,001 - 1,500	117	117	95	57
1,501 - 5,000	91	90	73	45
Over 5,000	47	47	44	28

For communities with similar populations, the basic grant has an equalizing effect even though it is not tied to the degree of wealth in the community. This is because a given grant is equivalent to a greater number of mills on the local tax base in a municipality with a low assessment per capita than a municipality with a high assessment per capita.

2) Per Capita Grant

To determine the impact of the per capita grant in terms of achieving equalization, two sets of columns in Tables III-6 and III-7 can be compared:

- The column showing the disparity in mill rate requirements after the payment of the basic grants.
- The column showing the disparity in mill rate requirements after the payment of the basic and per capita grants.

For the 1 to 100 population group, the effect of the per capita grant is to reduce the disparity in mill rate requirements for the most wealthy and least wealthy municipalities from 159 percentage points to 117 percentage points. For the 101 to 250 population grouping, the disparity is reduced from 163 percentage points to 113 percentage points.For the 501 to 1,000 and 1,001 to 1,500 population groupings, the respective reductions in disparity are from 114 to 89 percentage points and from 117 to 95 percentage points.For the 1,501 to 5,000 population grouping, the disparity is reduced from 90 to 73 percentage points. The disparity between the most wealthy city and the least wealthy city is reduced from 47 to 44 percentage points.

For the 7 different population groupings, the disparity in mill rate requirements between the most wealthy and least wealthy municipalities is reduced by an average of 26 percentage points, as a result of the per capita grants.

Even though per capita grants are not tied to the wealth of the municipality, they do have an equalizing effect because, all other things being equal, they represent more in mills to a community with a small assessment base than to a similar community with a large assessment base.

3) Foundation Grants

To determine the impact of the foundation grant payments in terms of achieving equalization, two sets of columns in Tables III-6 and III-7 can be compared:

- The column showing the disparity in mill rate requirements after the payment of the basic and per capita grants.
- The column showing the disparity in mill rate requirements after the payment of the basic, per capita and foundation grants.

The difference between these respective columns reveals the impact of the foundation formula.

For the 1 to 100 population grouping, the disparity in mill rate requirements between the most wealthy and the least wealthy municipalities is reduced from 117 percentage points to 54 percentage points. For the 101 to 250 population grouping, the disparity is reduced from 113 to 55 percentage points. For the next 4 population groupings, the disparity is reduced from 57 to 28 percentage points, from 89 to 52 percentage points, from 95 to 57 percentage points, and from 73 to 45 percentage points, respectively. The disparity between the most wealthy and the least wealthy city is reduced from 44 to 28 percentage points.

For the 7 different population groupings, the disparity in mill rate requirements between the most wealthy and least wealthy municipalities is reduced by an average of 38 points.

4) Per Capita Compared with Foundation Grants

The total per capita grants in the 1985 formula amounted to $37.1 million and had the effect of reducing the disparity in mill rate requirements among the most wealthy and least wealthy municipalities by an average of 26 percentage points among the 7 different population groupings. Foundation grants amounted to the considerably smaller amount of $25.4 million, yet reduced the disparity in mill rate requirements by an average of 38 percentage points. If per capita grants had an equalizing impact proportional to the foundation grant, the $37.1 million would have reduced the disparity in mill rate requirements by 56 percentage points, rather than by 26 percentage points.

Table III-8 provides a different basis of comparison of the respective abilities of per capita and foundation grants to achieve equality among municipalities in terms of their capacity to provide comparable services with comparable mill rates. The first set of three columns displays the differences in mill rate requirements between the most wealthy and least wealthy municipalities, assuming that the 1985 basic grant was paid and that all of the monies which had been allocated to the foundation grant were reallocated to the per capita grant. The second set of three columns displays the disparities which would exist if the basic grant were paid and the monies which had been allocated to the per capita grant were reallocated to the foundation formula.

For the 1 to 100 population category, there would be a disparity of 48 percentage points in mill rate requirements between the most wealthy and the least wealthy municipalities if the foundation grants were reallocated to the per capita grant. When the per capita grants are reallocated to the foundation formula, the disparity drops to 5 percentage points. The disparity for the 101 to 250 population group is 36 percentage points under the per capita distribution, but drops to 23 points under the foundation distribution.

In short, this analysis also shows that the foundation grant system is considerably more effective in terms of providing municipalities with the ability to provide comparable services with comparable mill rates.

C. Implications of Incomplete Equalization

Chart III-5 provided a pictorial description of the equalization concept, assuming that the full foundation entitlement is paid.

As noted earlier, the full theoretical foundation entitlement in 1985 amounted to

TABLE III-8

COMPARISON OF IMPACT OF PER CAPITA AND FOUNDATION GRANTS*
MILL RATES REQUIRED TO MEET STANDARD EXPENDITURES AS A PERCENTAGE OF COMPUTATIONAL MILL RATE

	After Basic and Per Capita Grants Only**			After Basic and Foundation Grants Only***		
Population Category	Most Wealthy Municipalities	Least Wealthy Municipalities	Difference in Percentage % Points	Most Wealthy Municipalities	Least Wealthy Municipalities	Difference in Percentage % Points
1 - 100	70%	118%	48% points	85%	90%	5% points
101 - 250	81	117	36	97	120	23
251 - 500	81	108	27	100	113	13
501 - 1,000	145	258	113	107	131	24
1,001 - 1,500	152	269	117	110	135	25
1,501 - 5,000	115	205	90	103	122	19
Over 5,000	114	161	47	103	113	10

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*The notes under Table III-4 apply to this table with the exception of the over 5,000 population category to which the notes under Table III-5 apply.

**Under this approach, the basic grant of $1.3 million is retained, and the $25.9 in foundation grants (the amount that would have been distributed had the 1985 formula actually been used) is reallocated to the per capita distribution. The per capita distribution would amount to $63.0 million, and the value per capita would be $92.37. The total basic and per capita payout would be $64.3 million.

***Under this approach, the basic grant of $1.3 million is retained, and $37.1 million in the per capita allocation is reassigned to the foundation formula. The total basic and foundation payout would be $64.3 million. Municipalities would receive 78.29% of their foundation entitlement.

approximately $80million, while only $25.4 million was allocated for the purpose. Accordingly, each municipality was paid only 32.14% of its theoretical entitlement. Chart III-6 provided a pictorial description of the implications of the payment of partial equalization.

Chart III-8 shows the combined effects of the per capita and partial foundation grant entitlement for the same hypothetical municipalities used in Charts III-5 and III-6.[9] All three municipalities receive the same per capita allotment, regardless of the size of the local tax base. Municipality "A"' is left with a revenue shortfall of $130,032, after taking into account the amount raised by the standard local levy of 90 mills, and after both the partial foundation entitlement and the per capita grant are paid. In order to spend at the recognized level of $500,000, municipality "A" would require a mill rate of 155 mills (90 mills for the basic contribution expected of all 3 municipalities, plus another 65 mills to finance the $130,032 shortfall).

For municipality "B", the revenue raised by 90 mills, plus the revenue from the partial foundation entitlement and the per capita grant comes within $7,884 of meeting the standard expenditure requirement of $500,000. Municipality "B" would require a mill rate of 94 mills to meet the standard expenditure (90 mills for the basic input, plus another 4 mills to finance the $7,884 shortfall).

For municipality "C", the combined revenue from a local levy of 90 mills, plus the partial equalization entitlement and per capita grants provides total revenue of $553,190, some $53,190 in excess of the standard expenditure requirement of $500,000. The $53,190 is equivalent to nearly 11 mills. This means that municipality "C" could finance the $500,000 expenditure requirement with a mill rate of 79 mills (90 minus 11).

Thus, the combined partial equalization and per capita grants under the foregoing hypothetical example operate in such a way that there are wide variations in the mill rates that would be required to meet a standard level of expenditure. Municipality "A" would require 155 mills to finance an expenditure level of $500,000, while municipality "C" could finance that same level of expenditure with a mill rate of 79, or roughly half the mill rate of municipality "A".

While the foregoing analysis is based on hypothetical municipalities, an analysis of the mill rates required by specific actual municipalities to spend at standard levels reveals that wide disparities would still exist, even after the payment of grants. Tables III-6 and III-7 show that even taking into account the impact of the basic, the per capita, and partial foundation grants, there are major differences in the mill rates that would be required to meet the standard expenditures. The average mill rate requirements of the least wealthy municipalities are as much as 80% in excess of the average mill rate requirements of the most wealthy municipalities to meet standard expenditure levels.

The less wealthy municipalities are faced with the prospect of either having higher mill rates than their more wealthy counterparts in order to spend at similar levels, or they must be prepared to spend less. Table III-9 shows that the least wealthy municipalities in all population categories spend less than their most wealthy counterparts in the same population grouping.

The differences are large in all population groupings, except for the 1,501 to 5,000 category where it is very small. In this particular population grouping, the mill rates of the least wealthy municipalities are substantially greater; municipalities with relatively small tax bases which wish to have services comparable to their wealthy counterparts must have higher mill rates to finance the services.

The Commission also notes that while the least wealthy municipalities spend less than their most wealthy counterparts, with the exception of the 1,501 to 5,000 population grouping, the least wealthy municipalities have lower average mill rates. This is contrary to what one might have expected. One possible explanation is that the least wealthy municipalities are unable to afford the capital costs of certain municipal infrastructure and for this reason, do not incur the ongoing operating costs associated with that infrastructure. The Commission did not have access to information which would permit a conclusion to be reached on an explanation for this phenomenon.

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[9] The basic grant is small and is ignored in Chart III-5 to provide a more simple and clear analysis.

CHART III-8
COMBINED EFFECTS OF PARTIAL EQUALIZATION AND PER CAPITA GRANTS

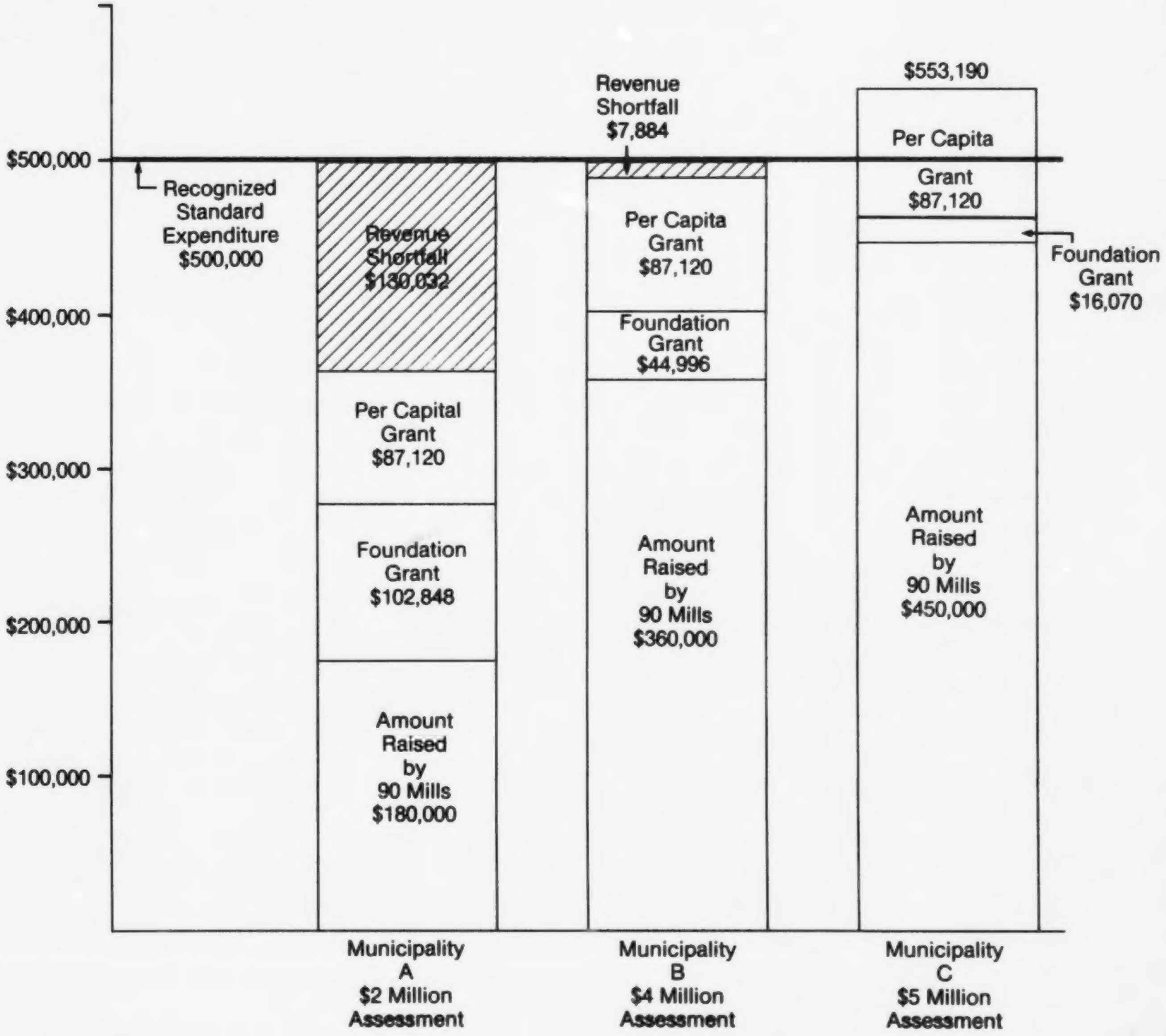

TABLE III-9
ACTUAL EXPENDITURES AS A PERCENTAGE OF RECOGNIZED EXPENDITURES AND ACTUAL MILL RATES AS A PERCENTAGE OF COMPUTATIONAL MILL RATES

Population Category	Actual Expenditures as a Percentage of Recognized Expenditures		Actual Mill Rates as a Percentage of Computational	
	Most Wealthy	Least Wealthy	Most Wealthy	Least Wealthy
1 - 100	99%	57%	106%	71%
101 - 250	111	82	155	115
251 - 500	112	89	128	101
501 - 1,000	121	89	127	99
1,001 - 1,500	101	76	132	98
1,501 - 5,000	105	104	89	117

NOTE: A comparison among cities is not made in the table because of complexities of types of revenues and expenditures, equalized assessments, etc., which make analysis exceedingly difficulty.

The Commission emphasizes that the purpose behind equalization is to **enable** municipalities of similar population to have similar expenditure levels and services and similar mill rates, regardless of the local tax base of the municipalities, if the municipal councils so choose. However, a variety of factors enter into the actual decisions of autonomous municipal councils in regard to expenditure levels, types of services provided, and local tax rates.

D. Options for Improved Equalization

The wide disparities in fiscal capacities of urban municipalities, even taking into account the effect of grants, are of major concern to the Commission. The Commission examined some options under which equalization could be improved in the revenue sharing payments.[10] The 1985 distribution of grants which would have occurred without the guarantee provision is used as a base for comparison.[11]

Although some of the options entail changes to the computational mill rates and the recognized revenues for the foundation formula, it was assumed that the current basic structure of the foundation formula would remain unchanged in the options examined. The Commission provides some commentary on the structure of the foundation formula in section 6E.

1) Options Without Additional Monies in the Revenue Sharing Pool

The Commission examined a number of options to determine whether a reallocation of the current level of funding could be used to improve the ability of communities of similar size to have similar levels of services at similar local mill rates.

i) Option 1: Basic and Per Capita Considered as Recognized Revenue

Under this option, the basic and per capita grants would remain unchanged, but they would be considered as recognized revenue in the calculation of the foundation grant. The recognized local revenue portion of the foundation grant calculation is intended to reflect the revenue base available to the municipality. It can be argued that the basic and per capita grants are part of the revenue base and should be treated as recognized revenue in the same way that potash tax sharing payments or grants-in-lieu of taxes are considered.

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[10] The effects of these options on the disparities between the most wealthy and least wealthy municipalities in terms of mills required to finance standard expenditures are shown in Appendices III-20 and III-21.

[11] In 1985, the actual grant distribution reflected the guarantee that no municipality would receive less than in the previous year.

In order to isolate the effects of any changes in the distribution formula, it was necessary to exclude the guarantee from the analysis of the current and alternative grant distributions.

Under the rural equalization formula, conditional grants for road construction, bridges, and maintenance are taken into account and considered as revenue. Treating urban basic and per capita grants as recognized revenue would parallel this practice.

Because the basic grants are relatively more important to the smaller municipalities, recognition of their grants in the foundation calculation has a negative impact on these smaller centres.

Under Option 1, there would be a substantial improvement in overall equalization. The disparities in mill rate requirements between the most wealthy and least wealthy municipalities would be narrowed considerably for the population groupings of 500 and higher. There would be a marginal widening of the disparities for the 3 smallest population groupings.

ii) Option 2: Basic and Per Capita Considered as Recognized Revenue and Increase Computational Mill Rate

Under this option, the basic and per capita would remain unchanged, and they would be treated as recognized revenue as in Option 1. In addition, however, all computational mill rates would be increased by 9.34% so as to reallocate the foundation monies and permit a full payout of the theoretical foundation entitlements. In effect, this option would tend to provide more equalization to the least wealthy municipalities.

This option would bring about a marginal overall reduction in the disparities in mill rate requirements in the 3 low population groupings, but would bring about a major removal of such disparities in the high population groupings. In comparison with the 1985 grant distribution, Option 2 would reduce the disparity in mill rate requirements from 52 percentage points to only 2 points for the 501 - 1,000 population group, from 57 to 0 in the 1,001 - 1,500 population group, from 45 to 13 in the 1,501 - 5,000 population group, and from 28 to 10 in the over 5,000 group.

iii) Option 3: Reallocate Foundation Grant Funds to Per Capita

Under this option, the basic grant would be retained, the foundation grant would be eliminated, and the monies reassigned to the per capita distribution.

Under this option, there would be a general widening of the disparity in mill rate requirements between the most wealthy and the least wealthy municipalities, particularly for municipalities in excess of 500 population where the disparities in percentage points would be approximately doubled. It would actually reduce the disparity somewhat for the municipalities of less than 250 population.

In terms of changes in grants, there would be an approximate equality in the number of municipalities receiving increases and decreases for municipalities of over 500 population, and for the 1 - 100 population grouping. The vast majority of municipalities between 100 and 500 population would receive increases.

iv) Option 4: Reallocate Per Capita Funds to Foundation Grant

Under this option, the basic grant would be retained. The per capita grant would be eliminated and the monies reassigned to the foundation distribution. 78.3% of the theoretical foundation entitlement would be paid out under this option.

This option would substantially narrow the disparity in mill rate requirements between the most wealthy and least wealthy municipalities in all population groupings.

v) Option 5: Reallocate Per Capita Funds to Foundation Grant and Increase Computational Mill Rate

This option is the same as Option 4, except that the computational mill rates would be increased by 8.83% so as to enable the full theoretical foundation entitlements to be paid within the aggregate funds available.

This option would come the closest of all options to eliminating the disparity in mill rate requirements between the most wealthy and least wealthy municipalities.

Because of the impact of the basic grant, the least wealthy municipalities would be in the anomalous situation of being able to spend at the same level as their most wealthy counterparts, and yet have somewhat lower mill rates.[12]

vi) Summary

While some of the options do bring about greater equality of mill rate requirements between the least wealthy and most wealthy municipalities within population groups, the Commission believes that none of them are practical or desirable because of the substantial reductions in grants for many municipalities which would be necessary to achieve the equality. In short, the Commission has concluded that there are insufficient monies in the urban revenue sharing pool in order to bring about full equalization in a practical way.

2) Options Requiring Additional Monies in the Revenue Sharing Pool

The Commission examined a number of options for improving equalization under which the constraint of the previous set of options would be removed and there would be increases in the revenue sharing pool.

i) Option 6: Eliminate Per Capita and Provide Full Equalization

Under this option, the basic grant would be retained, the per capita grant would be eliminated, and the full theoretical foundation grant entitlement would be paid to the respective municipalities requiring a foundation grant.

Under this option, the foundation grant would increase from $25.9 million (the 1985 level) to $80.5 million. The revenue sharing pool would be increased by $17.5 million, to a total of $81.8 million, or an increase of 27%.

The foundation portion of this option would entirely eliminate the disparity in mill rate requirements between the least wealthy and most wealthy municipalities within population groupings. Because of the retention of the basic grant, however, there would be "over-compensation" for the wealth of municipalities and the least wealthy municipalities would be able to spend at the standard levels with mill rates somewhat lower than their more wealthy counterparts.[13]

ii) Option 7: Eliminate Basic and Per Capita and Provide Full Equalization

Under this option, the basic and per capita grants would both be eliminated and sufficient monies added to the revenue sharing pool to enable a complete payout of the foundation entitlements to each municipality.

This is the same as Option 6, except that the basic grant is retained in the latter. The pool would be $80.4 million, an increase of $16.1 million or 25%.

Under this option, there would be essentially complete equalization between the most wealthy and least wealthy municipalities in terms of the mill rates required to finance the standard expenditures as defined under the foundation grant program. In other words, the disparities in mill rate requirements would be removed.

iii) Option 8: Add $17.5 Million to Foundation Grant

Under this option, the basic and per capita grants would be retained and $17.5 million would be added to the foundation formula in order to produce an aggregate payout of similar magnitude to Option 6.

Under this option, 53.9% of the theoretical foundation entitlements would be paid, compared with 32.1% under the 1985 arrangements.

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[12] See footnote 9 in Appendix III-20 for an explanation of how this situation arises.

[13] See footnote 9 in Appendix III-20 for an explanation of this anomaly.

The disparities in mill rate requirements would be reduced to a substantial degree among all population groupings under this option, although not to the same extent as either Option 6 or 7.

iv) Option 9: Add $17 Million to Foundation Grant, but Treat Basic and Per Capita as Recognized Revenue

Under this option, the basic and per capita grants would be retained, but they would be considered as recognized revenue in the foundation grant formula. The foundation grant would be increased to $42.9 million (an increase of $17.0 million) to permit a full payout of the foundation entitlement of each municipality.

Under this option, no municipality would have to levy a mill rate in excess of the computational mill rate in order to finance the standard level of expenditure defined in the foundation formula. Some of the more wealthy municipalities would continue to be able to levy less than the computational mill rate and, in this sense, some disparity would continue.

v) Summary

Options 1 to 9, inclusive, would redistribute grants among urban municipalities. The number of municipalities which would receive an increase, decrease, or no change in their grant under each option is shown in Appendix III-22.

Options 1 to 6 involving no change in the size of the urban revenue sharing pool would result in a large number of municipalities receiving a decrease in their grants, although the number of decreases varies considerably within the various population groups. Option 7 would produce a relatively small number of grant decreases, while under Option 8, no municipalities would receive less. Option 9 would see considerably more small municipalities receive a decrease in their grants due to the impact of recognizing the basic grant as recognized revenue.

In summary, the Commission has concluded that there are means of providing full equalization and eliminating disparities in mill rate requirements under a number of options that would entail the addition of approximately $17 million to the urban revenue sharing pool.

However, the Commission has also concluded that some changes would be required in the foundation formula to bring about a fair and equitable distribution of foundation grant monies in the various population groupings.This issue will be discussed later in this chapter.

E. The Foundation Formula

The Commission believes that the foundation formula is fundamentally sound:

- The process of arriving at recognized expenditures for police and general municipal expenditures on the basis of higher per capita amounts for larger municipalities is conceptually sound. Larger municipalities do have a greater range of services, and they do spend more than smaller municipalities on both an absolute and a per capita basis. The use of actual expenditure data in arriving at the formulas which are used in determining recognized expenditures is a sound practice.

  There are probably variations in expenditure requirements which cannot be reflected solely in the population of the municipality. However, the Commission is not aware of any other objectively determined factors which could be feasibly used to measure and apply these variations.

  As a consequence, the recognized expenditures under the foundation formula for urban municipalities are less able to accurately reflect the expenditure requirements of individual municipalities than are the corresponding recognized expenditures under the foundation formula for school divisions or the equalization formula for rural municipalities.

- The use of a higher computational mill rate for larger communities is also conceptually sound.If higher per capita expenditures (reflecting higher levels of services) are to be recognized in the foundation formula for larger municipalities, then the formula should incorporate higher computational mill rates for such communities. It is only reasonable for taxpayers with greater levels of services in the community as a whole to be expected to have a correspondingly higher mill rate to pay for those services.

- The overall structure of the foundation formula is conceptually sound and, if fully applied, will achieve the objective of equalizing the fiscal capacities of municipalities to provide levels of services appropriate and feasible for their size.

Although the Commission believes that the concepts underlying the foundation grant formula are fundamentally sound, there are aspects of the formula which warrant substantial improvement:

1) Recognized Revenue and Expenditure

The per capita grants are a major source of revenue for municipalities and this fact needs to be reflected in the calculation of the foundation grant. Per capita grants should be considered as recognized revenue just as conditional grants are taken into account in the calculation of equalization grants in the rural revenue sharing program.[14] It is essential that this be done in order to adequately take into account the fiscal capacity of a municipality in the calculation of the foundation grant.

Treating the per capita grants as recognized revenue would not reduce the overall amount of foundation grants payable, but would ensure a more equitable overall distribution of grants.

There is less of an argument for recognizing the basic grant as revenue. A basic grant is currently necessary because the foundation formula itself is currently not structured in a way which gives adequate recognition to the expenditure faced by small communities and the fact that such expenditures are not proportional to population. Recognizing the basic grant in the current foundation formula would tend to counteract the objective behind the basic grant. If, on the other hand, the recognized expenditures for small municipalities were redesigned in the foundation formula so as to give appropriate recognition to these costs, then the need for the basic grant would disappear.

The Commission wishes to emphasize that it would be inappropriate to treat the basic grants as recognized revenue under the present design of the foundation formula. To do so would result in major reductions in foundation grants to the small population groupings.

The Commission also believes that grants-in-lieu of taxes should be converted to an equivalent or "derived" assessment in calculating local revenue. This is preferable to the current practice of simply recognizing the amount of grants-in-lieu of taxes collected by the municipality.

Under the principles governing the foundation formula, it is the size of the local tax base, not the mill rate that a municipality decides to levy, that determines the recognized local revenue. If this were not the case, then the foundation formula would not be neutral in its effect on local decisions on tax rates; municipalities would be penalized for having a higher mill rate, and rewarded for having a lower mill rate. Because of the fact that the amount of grants-in-lieu of taxes is dependent on the local mill rate, the assessment base from which such grants are paid should be used in the calculation of recognized local revenue, not the actual amount collected by the municipality.

There are several other local sources of revenue which are recognized in the foundation grant calculation. However, these sources are not dependent on the local mill rate and, for this reason, the Commission believes it is not necessary to convert these to derived assessment.

2) Allocation Among Population Groupings

In section 5D, the Commission examined several options for improving equalization among municipalities. Several of these options would achieve what might be called "horizontal equity". That is, they would enable municipalities of similar populations to spend at comparable levels and to finance their expenditures at comparable mill rates.

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[14] Under the rural revenue sharing program, the conditional grants are actually treated as deductions from recognized expenditures, but the effect is the same as including them in recognized revenue.

In the process of examining these options, however, it also became apparent that neither the current distribution of grants nor the options identified achieved what might be called "vertical equity". That is, it appears that certain components of the foundation formula are currently established in a way which provides for an unfair distribution of monies among the various population groupings.

The Commission determined the total foundation grants and total population for all municipalities in the various population groupings and calculated the amount of foundation grant on a per capita basis.[15] This was done for the current (1985) distribution of grants and for each of the 9 options described earlier in this chapter. It is apparent that some population groupings receive relativey small amounts of foundation grant in per capita terms compared with other population groupings.

The 251 to 500 population grouping receives the smallest amount per capita, both under the current distribution and under each of the various options. The 101 to 250 and 1,501 to 5,000 population groupings also receive relatively small amounts.

The Commission emphasizes that under the equalization principle, it is **not** the objective to provide every municipality with the same amount of foundation grant per capita. This would be entirely contrary to the principles behind the foundation formula. The essential principle is that there should be **different** amounts per capita given to the various municipalities to compensate for variations in their local fiscal capacities.

However, when it comes to the examination of the average foundation grant for all of the municipalities within a population grouping, a per capita analysis is not inappropriate. It can provide a rough gauge of the appropriateness of the formula. If a given broad population grouping is eligible for a relatively low amount of foundation grants, it suggests that on an overall basis, the municipalities in that grouping are more wealthy than the municipalities in other population groupings.

A review of the overall assessments per capita for the different population groupings reveals that, as one might expect, the overall assessments per capita rise as the average size of municipality rises, but that there are no bases upon which to suggest that the municipalities in the 251 to 500 population grouping, for example, are more wealthy on average than the municipalities in other population groupings.[16]

Neither the fundamental principles behind the foundation formula nor its basic structure would have to be changed in order to bring about the required equity among the population groupings. Instead, particular care must be exercised in developing the schedule of recognized expenditures and revenues across the different population groupings. In particular, the Commission believes that the schedule of computational mill rates needs to be examined.

3) Summary

The foundation formula is fundamentally sound. A number of options can be developed, using the current structure of the formula, to enable municipalities of similar populations to have similar levels of services at similar local tax rates, even though the size of their local tax bases may be quite different.

A restructuring of the schedule of recognized revenues and expenditures is required, however, in order to bring about equality of treatment for municipalities in the different population groupings.

F. Grandfathering Provisions

There has been extensive use of "grandfathering" provisions under the urban revenue sharing program.Originally, these provisions were instituted as a means of ensuring that as a result of the implementation of revenue sharing, no municipality would experience a reduction in grants.

Recently, however, the amount of "grandfathering" has been more extensive. When additions were made to the revenue sharing pools in 1984-85 and 1986-87, for example, all municipalities received the same percentage incrase in grants, regardless of any changes in assessments, population, or other factors.

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[15] See Appendix III-23.

[16] See Appendix III-24.

The Commission believes that some forms of grandfathering, such as guaranteeing the same percentage increases in grants for all municipalities, operate in a manner which is contrary to the principles underlying the revenue sharing program. If a municipality experiences a larger increase in its local tax base, then it requires less in grants and it should receive less in grants if the equalization principle is to be honoured. Conversely, if a municipality experiences a reduction in its local tax base, then it requires a larger increase, other things being equal, than municipalities which have stable or growing local tax bases.

Across-the-board increases in revenue sharing payments may be popular in the short run. In the long run, however, they tend to destroy the operation of the equalization principle and produce proportionate inequities.

Designing the recognized expenditures and revenues in the foundation formula in a way which minimizes decreases in individual grants is another form of grandfathering. Principles should govern the design of the components of the formula, not short-term expediency.

In short, grandfathering should be used sparingly. It should not be used to protect individual municipalities from experiencing any reductions in grants, because there must be both increases and decreases if the basic principles behind the revenue sharing program, particularly equalization, are to be achieved. **Grandfathering should be used only to prevent excessive and burdensome decreases in grants arising from changes in grant formulas.**

G. Per Capita Grants

From the foregoing, it is apparent that an appropriately designed foundation formula is the only mechanism which can be used to bring about equality in the ability of municipalities of similar size to have similar levels of services with similar local tax rates. It is also apparent, however, that not all of the grants must be distributed through the foundation mechanism in order to achieve the objectives behind equalization, provided that sufficient monies are allocated to the foundation formula and that the per capita grants are treated as recognized expenditure in the formula.

Those who support greater reliance upon per capita grants use the following arguments:

- Broad Distribution

  It is argued that "revenue sharing" means that the provincial government in fact shares its revenues with municipalities, and that unless every municipality receives some reasonable share of the revenues, it is not in keeping with the basic philosophy of revenue sharing.

  If revenue sharing payments are distributed on the basis of the equalization principle, the least wealthy municipalities get more than the most wealthy municipalities and, in fact, some of the "wealthiest" municipalities would receive very little or no revenue sharing at all.Although such a distribution may be considered fair and may satisfy the criterion of equalization, it could be argued that it does not meet the general objective of the distribution of provincial revenues among municipalities.

- Political Power

  It has been argued that the foundation formula is subject to changes from year to year and that the larger centres, particularly Regina and Saskatoon, can exert political pressures to ensure that the formula is structured in such a way that it favours them. In other words, it is suggested that there is a potential for the foundation distribution to work to the disadvantage of the smaller municipalities.

  On the other hand, it is argued that a standard per capita allocation is automatically distributed uniformly, with no potential of any one municipality being favoured in relation to another. It is further argued that this type of distribution will promote a feeling of fair treatment among municipalities.

- Simplicity

  It is argued that there is advantage to having programs which are relatively simple and easy to understand. Acceptance and support tends to be promoted by programs that are capable of being readily understood.

- Administrative/Policy Decisions

  The development and ongoing administration of a foundation grant program requires the making of a number of policy and administrative decisions each year, and municipalities and their organizations may or may not have an involvement in such decisions. It is argued that straight per capita allocation requires practically no such policy and administrative decision-making, and the consequences of any imperfections or limitation in consultation processes are of much less importance.

- Assessments

  An important component of the foundation grant formula is the assessment base of each community. To the extent that there is a lack of confidence in the assessment system as a means of reflecting the fiscal capacity of different municipalities, there is a corresponding lack of confidence in the foundation formula. Use of a per capita distribution mechanism side-steps any concerns in regard to the weaknesses in the assessment system.

- Incentives

  It is suggested that progressive communities which promote business and investment tend to have corresponding increases in their property assessments, thereby causing them to be eligible for smaller foundation grant payments relative to the "less progressive" communities. It is suggested that this provides an inappropriate disincentive for the progressive communities. It is argued that per capita allocations, on the other hand, avoid such disincentives.

Some use the foregoing arguments as a basis for suggesting that either all revenue sharing grants should be distributed through a per capita approach or that at least the majority of funds be distributed by this mechanism.

While the Commission does not necessarily agree with all of the arguments that are made in support of per capita grants, it does believe that there is a place for per capita grants. From a technical standpoint, the equalization objective could be better achieved and achieved less expensively (in terms of the size of the revenue sharing pool required), if the per capita grant were eliminated and reallocated to the foundation formula. However, the disruption in grant allocations that would arise from their discontinuation would be substantial and it is not recommended.

As noted earlier, the Commission believes that with an increase of approximately $17 million in the urban revenue sharing pool, and with appropriate adjustments to the foundation formula, through which the additional monies would be distributed, full equalization could be achieved among municipalities of different wealth. Although all of such an increase would have to go to the foundation distribution to achieve the equalization objective, this does not mean that all further increases in future years would also have to be allocated to the foundation formula. Increases beyond the level which is necessary to achieve full equalization could be allocated in proportional amounts to the foundation and per capita components and still achieve the equalization objective.

In conclusion, the Commission believes that the current per capita grants should be retained.

H. Basic Grants

The Commission believes that the distribution formula needs to acknowledge the fact that some operating costs are not proportional to population size. Currently, the basic grant attempts to address this situation by providing $2,075 to each municipality up to a population of 149, $2,760 for municipalities with populations between 150 and 299, and $3,000 for municipalities with populations of 300 or more.

Another approach to the problem of overhead costs which do not vary in proportion to population size is to make the appropriate adjustments to the recognized expenditures in the foundation grant formula. In other words, the base or floor amount of expenditures for municipalities of small population size could be increased and less emphasis placed on the incremental costs of each additional resident in the formula. **The Commission recommends that the basic grants be discontinued in favour of more appropriate recognition of the operation costs of municipalities which do not vary in proportion to population, in calculating recognized expenditures.**

6. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The Commission reached several conclusions and makes a number of recommendations in connection with urban revenue sharing:

- **There are major variations in the fiscal capacities of urban municipalities. The least wealthy municipalities are faced either with having a lower level of services than their most wealthy counterparts of a similar population or with having mill rates which are higher in order to finance the services.**

- **Although the current revenue sharing grants do bring about some reduction in the disparities in mill rates which the least wealthy municipalities would require to finance standard levels of expenditures relative to the mill rates required by their most wealthy counterparts of a similar population, a substantial disparity still exists.**

- **The Commission has concluded that the lack of sufficient equalization is the largest single problem in regard to urban revenue sharing.**

- **The current level of monies in the urban revenue sharing pool is insufficient to permit full equalization to be achieved.**

  Although a reallocation of grants within the current pool to put more emphasis on the foundation grants would improve equalization, full equalization could be achieved only by requiring many municipalities to receive substantial reductions in their revenue sharing payments. This is neither practical nor desirable.

- **The Commission recommends that approximately $17 million be added to the foundation grant component of the urban revenue sharing pool in order to achieve full equalization. The Commission recommends that the per capita grants be retained and kept at the current level.**

  If this is done in conjunction with other changes recommended by the Commission, municipalities will be able to receive their full equalization entitlements.Municipalities of similar size will be able to finance similar levels of services at similar local tax rates, regardless of their relative wealth.

- **The Commission recommends that the per capita grants be considered as recognized revenue in the foundation calculation.**

  This is necessary in order to adequately reflect the resources available to each municipality in calculating its foundation grant entitlement. This would parallel the practice in the rural revenue sharing equalization formula in regard to the conditional grants.

- **The Commission recommends that the basic grant be discontinued in favour of more appropriate recognition of the operating costs of municipalities which do not vary in proportion to population, in calculating recognized expenditures.**

- **In conjunction with the payments of additional monies through the foundation formula, the schedules of recognized revenues and expenditure need to be revised to correct imbalances in the amount of foundation monies provided to certain groupings of municipalities.**

  The basic principles underlying the foundation formula are conceptually sound and should not be changed, but the recognized revenues and expenditures used in calculating individual grants require adjustment. At present, some population groupings receive relatively low average amounts of foundation grants, while other population groupings receive relatively large average amounts.

- **The Commission recommends that "grandfathering" should be done only to prevent excessive reductions in grants, due to changes in policy or formulas. The Commission does not support across-the-board percentage increases in revenue sharing payments and universal "grandfathering" because, in the long run, it severely jeopardizes the equalization principle.** It is acceptable and desirable to protect municipalities from suffering substantial losses in grants as a result of changes in grant policies. However, municipalities should not automatically be protected against all losses. For example, if a municipality has a large addition to its local tax base, all other things being equal, it requires less in foundation grant and should receive a decrease. To "grandfather" a municipality in this circumstance serves to give it a financial advantage over other municipalities.

- **Grants-in-lieu of taxes should be converted to a derived assessment for use in the calculation of foundation grants.** Local revenues which vary in proportion to the local mill rate should be converted to assessment so as to ensure that municipalities are neither rewarded nor penalized for decisions they make regarding their local tax rate.

- **The Commission recommends that standard amounts of the electrical and gas sales tax**

bases for each municipality be used in the calculation of recognized local revenue in the foundation formula.

This recommendation complements the recommended changes to the current system of S.P.C. payments as noted in Part II, Chapter Two. This would take the place of the current practice of recognizing actual gas and electric grants and ignoring the electrical surcharge revenue.Recognizing standard amounts of electrical and gas sales tax revenues would be necessary to take into account the fact that these are large sources of revenue, and are important components in the measurement of the fiscal capacities of municipalities.

CHAPTER FOUR

SCHOOL FOUNDATION FORMULA

In Part I, Chapter Two, the Commission provided an overview of financial statistics relating to the financing of elementary and secondary education. In this chapter, the Commission examines the foundation grants formula which is used to allocate provincial grants among individual school divisions.

1. FOUNDATION FORMULA - OBJECTIVES

The bulk of the provincial operating grants to school divisions is distributed by means of the "foundation grants formula".[1] Equalization of educational opportunities and local tax rates is the primary principle underlying the foundation grants formula.

The objectives of the foundation grants formula are:

- To compensate for variations in the local tax bases of school divisions in such a way that each school division is able to provide a desirable and realistic range of educational programs and services without having to impose an unduly high local tax rate.
- To maximize the autonomy of school divisions from the provincial government and to promote the efficient use of public monies by:
    - — Paying the bulk of the grants unconditionally, thereby enabling school divisions to set their own priorities and establish the level of expenditures which they believe are appropriate. The grant formula does not penalize nor reward school divisions for particular choices they may make.
    - — Encouraging school divisions to achieve economies. Savings realized by school divisions are retained in their entirety by the school divisions and do not result in lower grants.
    - — Avoiding open-ended grants. A decision of a school division to spend more does not result in additional grants.
    - — Avoiding penalizing or rewarding school divisions for the choices they make on the level of programs and services offered in the school division.
- To protect school divisions affected by circumstances beyond their control such as sparsity of the school population, the necessity of operating small schools, large changes in enrolments, etc..

2. HOW THE FOUNDATION FORMULA OPERATES

In computing the grant for each school division, the expenditure level which is deemed by the Department of Education to be required for each school division to provide a realistic and desirable set of programs and services is first determined. This is termed "recognized expenditure". The recognized expenditure is used only for the purpose of calculating grants; school divisions are not obligated to spend at that level and may choose to spend either a greater or a lesser amount.

Second, the share of recognized expenditure which can be financed from local sources is determined. This is called "recognized local revenue" and is essentially determined by the level of revenue which would be raised by a standard mill rate applied to the assessment base of the school division.This standard local mill rate is used only for the purpose of calculating grants and, for this reason, it is called the "computational mill rate"; school divisions are able to levy either a higher or a lower mill rate than that which is used in the grant calculation.

The grant is equal to the full difference between the recognized expenditure and the amount of recognized local revenue.[2]

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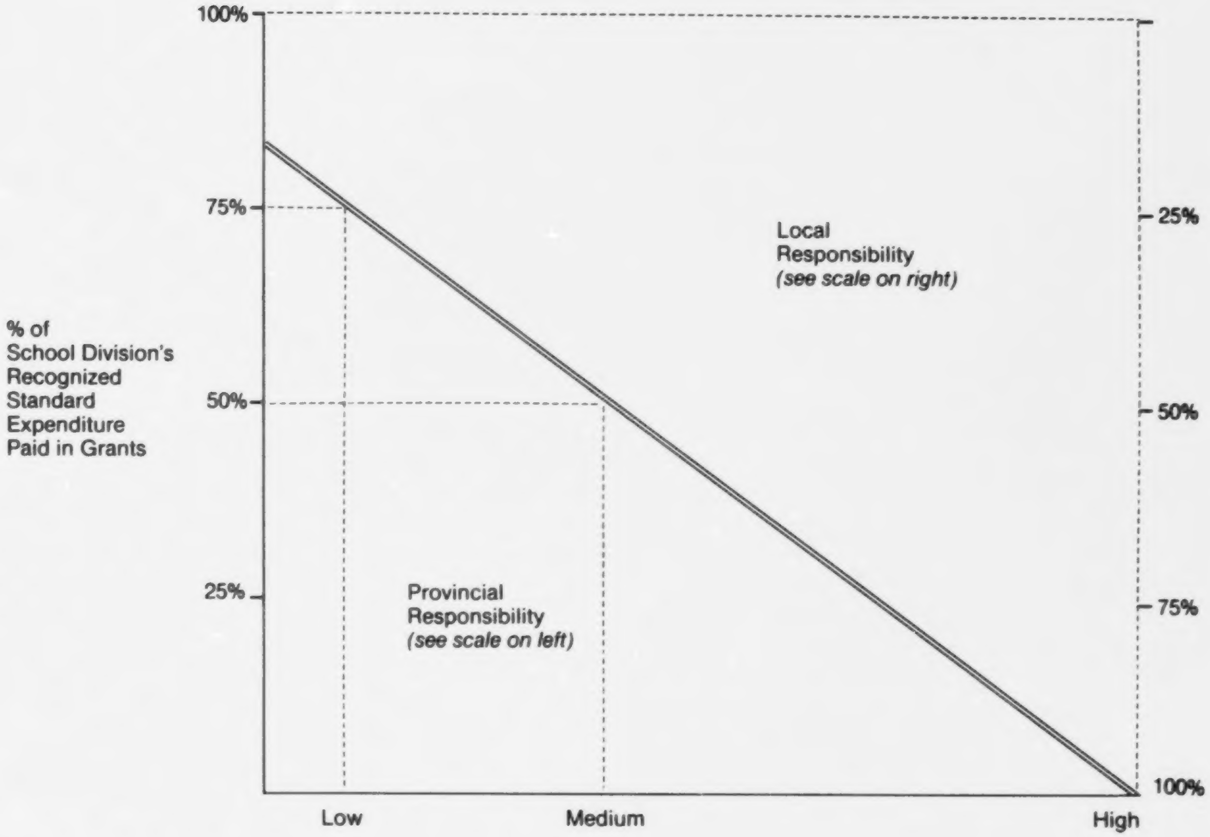
[1] See Appendix III-25 for a brief description of other operating grant programs.

[2] See Appendix III-26 for an overview of the components of recognized expenditures and recognized local revenue, and Appendix III-27 for a sample grant calculation.

If the local tax base of a school division is relatively large, it can raise a relatively large amount of funds at the local level and it requires corresponding less in grants to finance the recognized expenditures. On the other hand, if the local tax base is relatively small, the school division is able to raise only a relatively small amount of funds at the local level, and it requires a correspondingly larger grant to finance the recognized expenditures.

The equalization principle of the foundation formula is illustrated by Chart III-9.

CHART III-9
EQUALIZATION PRINCIPLE OF FOUNDATION FORMULA

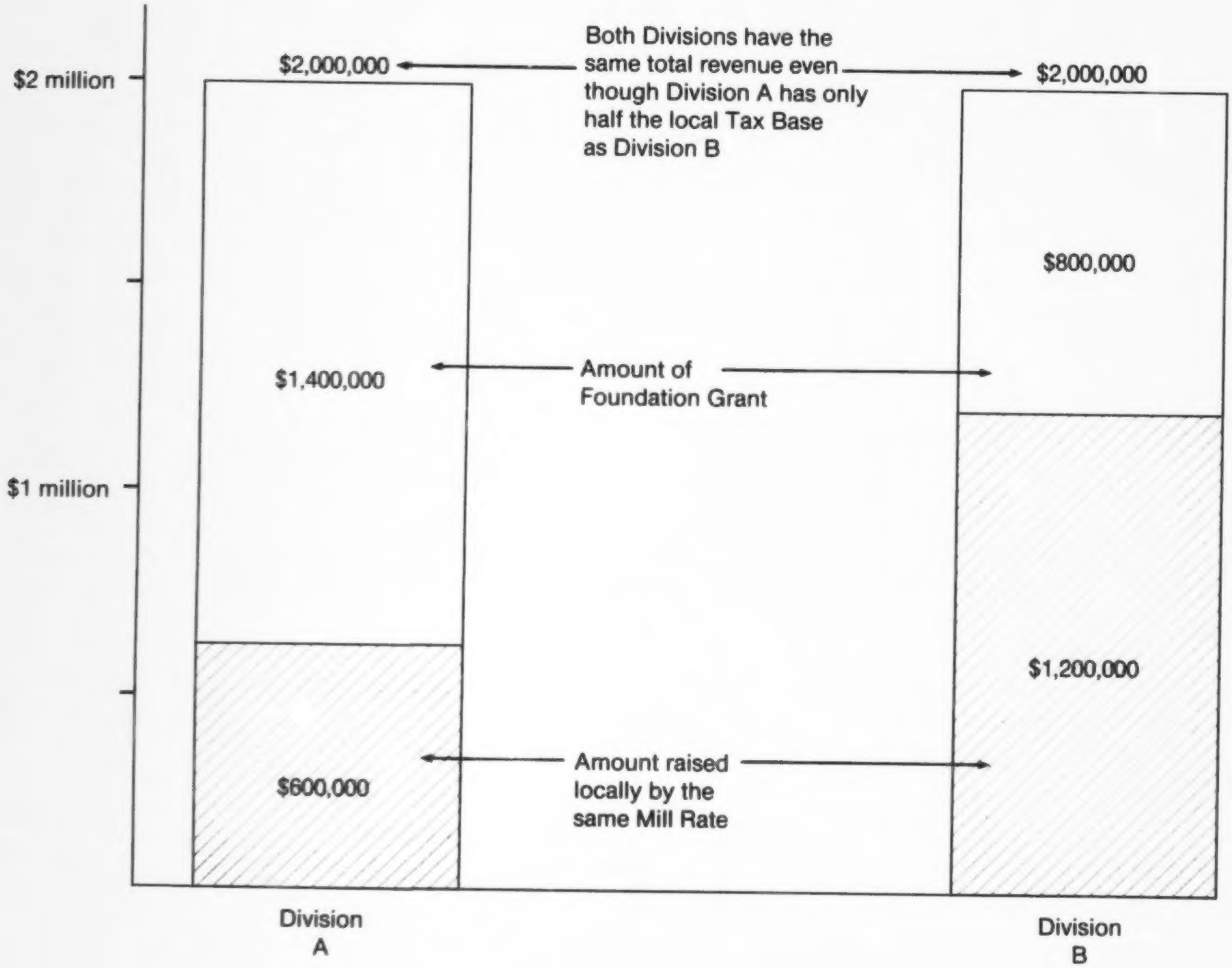


ABILITY TO PAY
(Assessment of School Divisions
Relative to their
Expenditure Requirements)

Chart III-10 further displays the equalization concept. Divisions "A" and "B" both have an expenditure requirement (recognized expenditure) of $2,000,000 in order to provide a reasonable level of programs and services in their respective divisions. However, the local tax base of Division "A" is only half that of Division "B". When the computational mill rate is applied to the tax bases of the two divisions, only $600,000 is raised in Division "A", while $1,200,000 is raised in Division "B".

The foundation grant fully compensates for the difference in local ability to pay. Both school divisions are able to finance their standard level of expenditures with the same mill rate.

CHART III-10
EQUALIZATION CONCEPT - DIFFERENT LOCAL TAX BASES



The school divisions are able to make their own decisions on the actual expenditures they choose to make and the local tax rate which they are prepared to levy in financing their expenditures. The fact that school divisions "A" or "B" choose to make expenditures higher or lower than the $2,000,000 and, accordingly, to have mill rates which are higher or lower than the rates used in the grant calculation, has no impact on the grant. Division "A" will receive $1,400,000 in foundation grant, and Division "B" will receive $800,000, regardless of their decisions on expenditures and mill rates.

Another way of illustrating the equalization impact of the foundation formula is to compare the mill rates which school divisions would require in order to meet a standard level of expenditure, first in the absence of provincial grants, then taking into account the revenue from 1985 foundation grants.Chart III-11 shows that, in the absence of foundation grants, a wide variation in mill rates would be required to meet the defined standard of expenditure.[3]

With the foundation grant, all school divisions are able to meet a standard level of expenditure with the same mill rate.In the absence of the foundation grant, varying mill rates would result, some of which would be exceedingly high.

Because school divisions are autonomous and make their own decisions on the level of expenditure they believe is required or desired, budgeted expenditures and mill rates will vary from the recognized amounts.

3. EVALUATION OF FOUNDATION GRANT FORMULA

A. General

Mainly because of the fact that the bulk of the monies paid out under the foundation formula are paid unconditionally, the foundation formula achieves the objectives of maximizing autonomy and promoting efficiency. Those components of the formula that are conditional generally have few conditions attached that would serve to undermine the independence of the school divisions.

The formula also performs well in providing monies to school divisions in such a way that school divisions generally do not suffer hardships because of circumstances beyond their control. The foundation formula provides financial compensation for school divisions faced by special circumstances, through the inclusion of a variety of special components of recognized expenditure. For example:

- A school division is not disadvantaged as a result of having a high proportion of students who require busing to school over long distances. The full recognition of transportation expenditures compensates for this.[4]
- A school division with a high proportion of students with disabilities is not disadvantaged because of the additional costs of providing services to such students. Incremental recognized expenditures are computed for each student for whom the required special educational services are provided.
- A division experiencing an enrolment drop is given assistance in adjusting to the lower enrolments through an "enrolment decline adjustment".
- Rural school divisions which have no choice but to operate small schools are given special recognition to compensate for the higher costs of operating small schools.

B. Level of Recognized Expenditure

The basic structure of the foundation formula is fundamentally sound and can meet its first objective which is to enable every school division to provide a desirable and realistic range of programs and services without an unduly high local tax rate. To the extent that the expenditures recognized in the foundation formula are sufficient to provide the level of programs and services which are appropriate and realistic for the school divisions, the formula operates very well. In 1985, for example, each school division would be able to spend the recognized level of expenditure and balance its budget with a levy of 95.5 mills, after taking into account the foundation grant.

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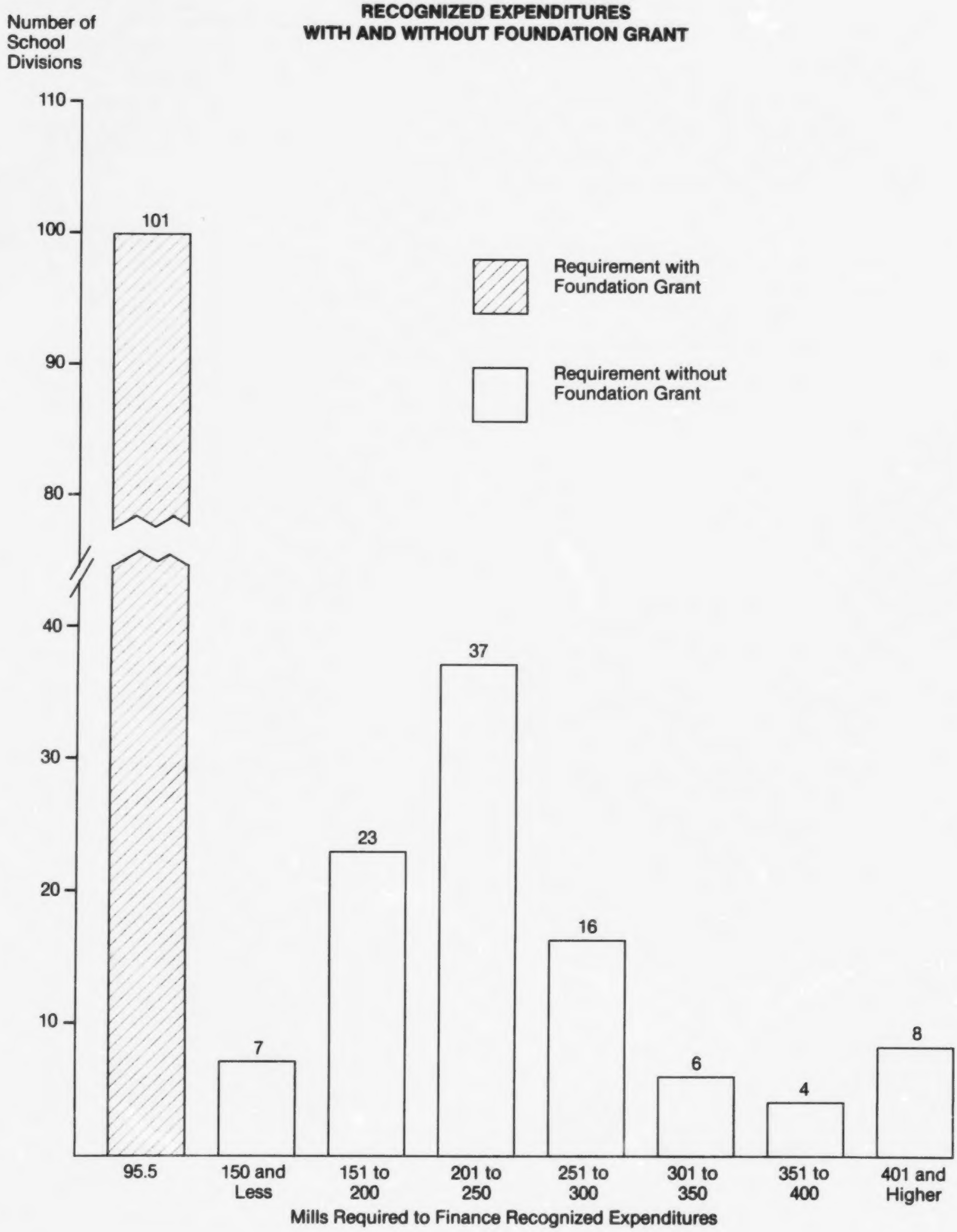
[3] In order to provide comparability among school divisions, the standard level of expenditures used are expenditures recognized in the 1985 foundation formula, rather than the actual expenditures made by school divisions. Data are for the 101 school divisions excluding Lloydminster, Estlin, Gray, Wilcox, and 4 comprehensive high schools. The 3 school divisions in Humboldt have been combined for analytical purposes.

[4] There is a formula within the foundation formula under which rural transportation expenditures are recognized. The amount of expenditure recognized is based on the number of students transported and the number of miles of bus routes.

CHART III-11

MILLS REQUIRED TO FINANCE RECOGNIZED EXPENDITURES WITH AND WITHOUT FOUNDATION GRANT



However, the Commission is concerned about the level of expenditures that are recognized in the formula. Over the years, recognized expenditures have fallen behind actual average expenditures of school divisions. In 1985, the total foundation formula recognition for items other than pupil transportation and tuition fee expense amounted to $524.1 million, while the actual expenditures of school divisions for the corresponding categories amounted to $580.5 million, a difference of $56.3 million.[5] The per pupil recognized amounts would have to be increased by 11.5% in order for recognized expenditures to equal actual expenditures for the province as a whole.[6]

A different way of stating the foregoing is that, on average, school divisions have decided they need to spend 11.5% in excess of the per pupil amounts recognized in the foundation formula in order to provide the level and quality of educational programs and services they believe are required. The implications for spending that additional amount are quite different for school divisions with a small tax base compared with a school division with a large tax base. Chart III-12, which outlines some facts pertaining to two actual rural school divisions, illustrates the point.[7]

Division "B" has 51% more students than Division "A", but has only 42% of the assessment of Division "A".

The assessment per student of Division "A" is $26,762, while the assessment per student of Division "B" is $7,479, less than a third of that of Division "A".

If each division spends at the level recognized in the foundation formula, each of the divisions will essentially be able to balance its budget at an identical mill rate equal to the computational mill rate used in the calculation of the foundation grant.

Even though Division "B" is considerably less wealthy than Division "A", the foundation formula compensates for this difference. In other words, the financial capacity to meet the recognized level of expenditure is equalized in the foundation formula.

However, if each of the school divisions decides that it wishes to have per pupil expenditures equal to the average of what other school divisions throughout the province are spending, it will have to finance on its own the additional amount over and above the expenditures recognized in the foundation formula. The additional 11.5% of expenditure above the recognized level represents 11.2 mills for Division "A", but 40.5 mills for Division "B". Division "B" would require a mill rate 29.3 mills higher than Division "A" to spend at the provincial average. **The Commission has concluded that the shortfall between recognized and actual expenditure represents a serious impairment of the equalization principles underlying the funding of education in Saskatchewan.**

The foundation grant formula is not intended to help finance an unlimited expenditure by school divisions. It is intended to help finance and equalize the ability of each individual school division to meet the expenditures required to provide a reasonable level of educational programs and services. If school divisions collectively decide that they wish to exceed the level of programs and services (expenditures) which the Department of Education believes to be appropriate, this does not mean in and of itself that the foundation formula should be adjusted to equalize the opportunity of school divisions to spend at that higher level. The objective of the foundation formula is to equalize the ability of school divisions to spend at the level deemed by the provincial government to be appropriate, not to equalize the ability to spend above that point.

In regard to the current average levels of expenditure by school divisions in Saskatchewan, the Commission makes the following observations:

- Saskatchewan school divisions spend less on a per pupil basis than any province west of the Atlantic provinces. This relatively low level of expenditure exists even though Saskatchewan incurs a relatively high cost for

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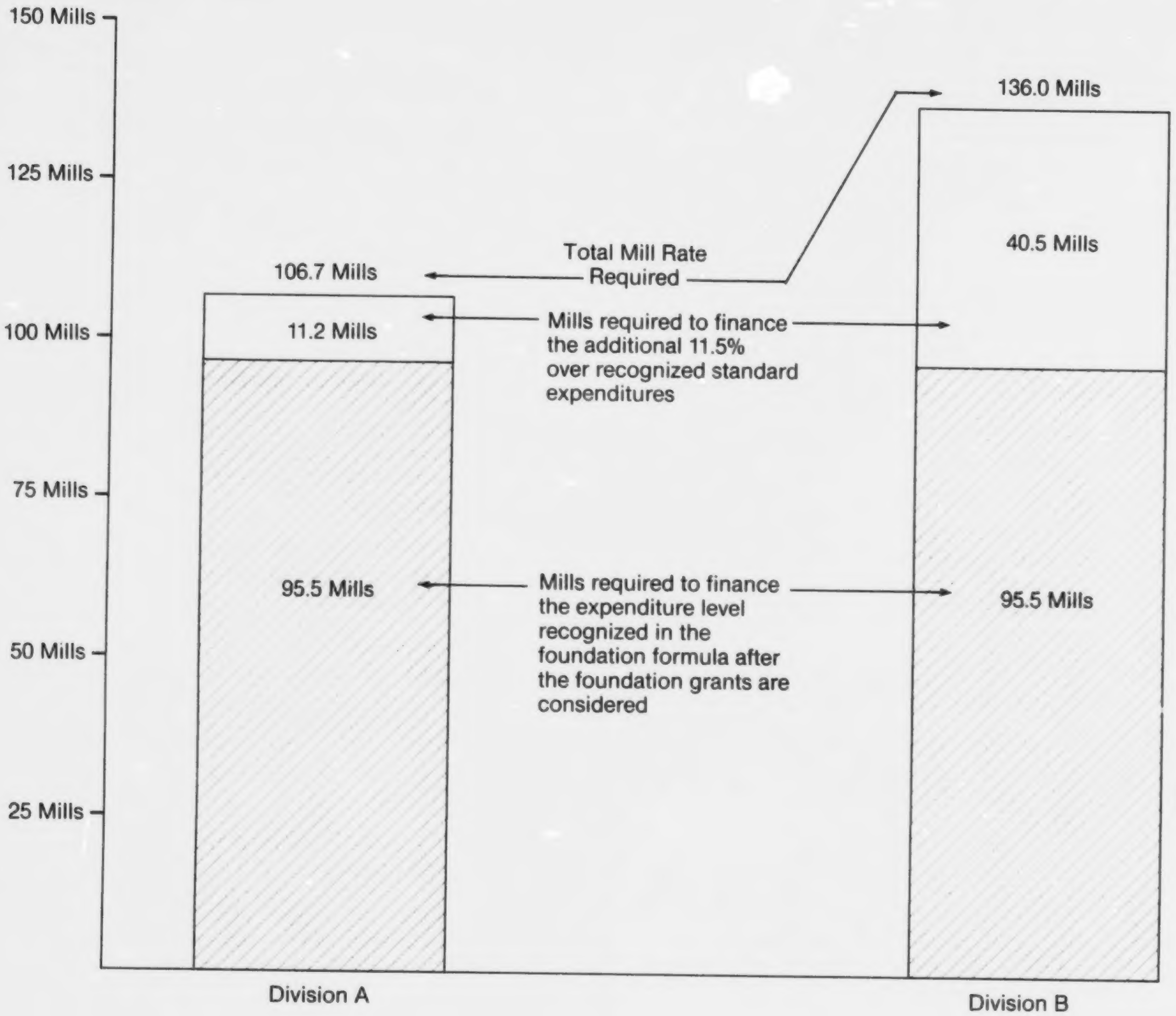
[5] See Appendix III-28.

[6] The recognized amounts for the "basic program" and "incremental per pupil amounts" in 1985 totalled $463.9 million and $25.4 million, respectively, for an overall total of $489.2 million. The $56.3 million shortfall is 11.5% of this total.

[7] Basic information on the two divisions is as follows:

	Division "A"	**Division "B"**
Assessment	$43,274,333	$18,307,819
Students	1,617	2,448
Assessment Per Student	26,76	27,479
Recognized Expenditure	4,229,395	6,442,456
11.5% of Recognized Expenditure	486,380	740,882
Additional Recognized Expenditure in Mills	11.2 mills	40.5 mills

CHART III-12
EXAMPLE OF LEVEL OF EXPENDITURES RECOGNIZED IN THE FOUNDATION FORMULA



transportation because of the dispersal of the student population over a wide geographic area.[8]

- The Commission has received no representations suggesting that school divisions in Saskatchewan are, on average, providing school programs and services in excess of that which is thought to be desired.

Taking into account these observations, the Commission has concluded that the average level of expenditure by school divisions in Saskatchewan is reasonable. This is not meant to suggest that efficiency cannot be improved upon; the Commission expects that all levels and types of government have an opportunity to improve their efficiency and effectiveness. This is also not meant to suggest that there is no room for debate over expenditures and program offerings of individual school divisions; school boards themselves debate these questions annually as they make budgetary decisions.

What it does suggest is that the current average level of expenditure by school divisions throughout the province represents a reasonable consensus on the level of spending which is desired and which the taxpayers are prepared to support.

Considering the foregoing, **the Commission believes that the level of recognized expenditures in the foundation formula is too low and ought to be equal to or at least much closer to the actual average expenditure level.** Under present circumstances, the equalization principle is being substantially compromised. School divisions are not being adequately compensated for their variations in local fiscal capacity as they endeavour to provide the programs and services which general public consensus seems to be suggesting that they ought to provide. Put quite simply, school divisions with a small local tax base relative to the size of the student body they must serve, must either choose to have a higher-than-average mill rate to spend at the same level as other divisions, or they must choose to spend at a lower level than other divisions.

The Commission examined three options for dealing with the current shortfall in recognized expenditure:

Option 1: Increase Recognized Expenditure by 11.5% ($56 million) and make no other changes.

If recognized expenditures were increased by $56 million to make aggregate recognized expenditures equal to aggregate actual average expenditures, and if no other changes were made to the foundation formula, it would have the effect of increasing aggregate grants by the same amount. All school divisons would receive an increase in grants, but the increase would represent more in mills for the less wealthy school divisions than it would for the wealthy school divisions. For example, for rural school divisions originally organized under **The Larger School Units Act**[9] the 10 most wealthy school divisions would receive grant increases averaging the equivalent of 11.8 mills, whereas the 10 least wealthy school divisions would receive grant increases averaging the equivalent of 31.6 mills. All school divisions, wealthy or otherwise, would be able to spend at the new recognized level (the actual average level of expenditure) and, essentially, balance their budgets at the same mill rate of 95.5 mills.[10]

Option 2: Increase Recognized Expenditure by 11.5% and Increase Computational Mill Rate by 19 Mills.

If the aggregate grants were to be retained at their current level, the increase of $56 million in recognized expenditure would have to be offset by an increase of 19 mills in the computational mill rate. The same total aggregate grant payout as provided currently would be achieved, but there would be a shift of grants from the wealthy school divisions to the school divisions which are less wealthy.[11] The same group of relatively wealthy rural school divisions referred to above would experience reductions in grants averaging the equivalent of 7.2 mills,[12] whereas the same group of least wealthy school divisions would receive increases in grants averaging the equivalent of 12.6 mills. All divisions would be able to spend at the new recognized rates (the actual average level of expenditure) and, essentially, balance their budgets at the new computational mill rate of 114.5 mills. While this new distribution of grants would be fair as judged by the equalization principle, the practical problems involved in substantially reducing grants to some school divisions, particularly if it were done in only one year, must be acknowledged.

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[8] See Appendix III-29.

[9] These school divisions are chosen for illustrative purposes because they are a more homogeneous and, hence, comparable group than would be the case if all divisions from a one classroom village school division to a large city division were used in the comparisons. The principles are, however, the same for divisions of all sizes and locations.

[10] See Appendix III-30.

[11] See Appendix III-31.

[12] Note that although the computational mill rate would go up by 19 mills, this would not mean that actual mill rates would have to go up by the same amount for the most wealthy school divisions. It is the interaction between both recognized local revenue and recognized expenditures which bring about the net impact.

Option 3: Increase Recognized Expenditure by 11.5% and Increase Computional Mill Rate by 11 mills.

If the computational mill rate were increased by 11 mills instead of 19 mills, it would ensure that the most wealthy municipalities would either experience no decreases or very small decreases in grants, but there would be a substantial reduction in the cost to the province compared with the $56 million which would be required if there were no increase in the computational mill rate. The cost would be $23.5 million. The most wealthy divisions would receive grant increases averaging 1.4%, while only one of the 10 most wealthy divisions would receive a relatively small decrease of 0.5%. The least wealthy divisions would receive increases averaging 7.3%. All divisions would be able to finance the revised level of recognized expenditure with a mill rate of 106.5 mills.

C. Sparsity Factor

The foundation formula includes a sparsity factor which is designed to compensate school divisions for the additional costs associated with sparse student populations. Additional costs associated with sparsity fall in two general categories:

1) Additional Transportation Costs

   Relatively small numbers of children which require transportation over relatively long distances result in high costs of transportation expressed on a per pupil basis.

2) Additional Costs of Operating Small Schools

   Even though busing of students permits school divisions to assemble students in central locations where schools can be larger than would otherwise be the case, sparsely settled school divisions usually are required to operate smaller than average schools because there are limits to the distances which students can or should be bused. Some costs vary with the number of students, while other costs tend to be relatively fixed, or at least do not vary in direct proportion to the number of students. In other words, it costs more on a per pupil basis when school divisions endeavour to provide the same services in small schools as they provide in larger schools.

The Commission favours the phasing out of the sparsity factor for two main reasons:

- First, other factors in the formula are intended to cover the same areas as the sparsity factor and, to that extent, the sparsity factor is superfluous. The formula for recognizing rural transportation expenditures within the overall foundation formula sufficiently compensates sparsely settled school divisions for their transportation expenditures. The Commission notes that the small schools factor is intended to compensate for the additional costs of operating small schools.
- Second, the sparsity factor is a very crude device. It is based entirely on the number of students in the school divisions relative to the number of square kilometers of territory within the boundaries of the school division. The small schools factor is more refined and, hence, superior to the sparsity factor.

The Commission notes that, for the past few years, the dollar value of recognition under the sparsity factor in the foundation formula has remained relatively constant, while increases are taking place in other components of the formula. If this practice continues over a period of years, the sparsity factor will, in effect, be largely phased out at least in relative terms.

D. Recognition for Students with a Disability

Two main developments have resulted in the provision of educational services to students with a disability:

1) The passing of provincial legislation in 1971 giving school divisions the legal responsibility for providing educational services to students with a disability.
2) The recognition of incremental expenditures in the foundation grants formula to recognize and financially support school divisions incurring the additional costs of providing educational services to students with a disability.

Grant recognition is given in two main forms:

1) 3% of the students enrolled in Divisions I to III are deemed to require special education services that are classified as being "low cost". In 1985, an additional $1,290 per student was recognized for this purpose. These amounts are recognized on an unconditional basis.

2) Other students with a "high cost" disability are specifically identified and each school division receives recognition for the identified students for whom appropriate educational services are provided. These students may be at any age level. There were 3 levels of additional expenditure recognized in 1985:

   Level 1 — $3,791
   Level 2 — 5,097
   Level 3 — 5,767

   The students have various degrees of mental or physical disability and are quite readily identifiable.

One category in the Level 1 cost category for which some issues have arisen is the student with a learning disability. These are students for whom there is a discrepancy between ability on one hand, and achievement on the other hand. Such students are not as readily identified as most other types of students whose mental or physical disabilities are relatively obvious. Tests are administered to students suspected of having a learning disability to see if they require special programming, and to determine eligibility for funding.

A number of concerns have been expressed about the way in which grant support is provided for the student with a learning disability:

1) The tests and measurements used to identify students with a learning disability are too imprecise and subjective to be used as a basis for determining grant support and results of the testing are too readily affected by the person doing the testing and by various circumstances surrounding the administration of the tests.

2) A disproportionate amount of time and resources are consumed in determining eligibility for grant support, rather than applying the resources to diagnostic and remedial services.

3) It is inappropriate to have a situation where it is to the financial advantage of school divisions to have greater numbers of students designated as having learning disabilities, when there is so much subjectivity involved in the identification process.

The Commission believes that some of the considerations surrounding this issue are either at the periphery, or are outside the mandate of the Commission. It is obviously outside the mandate of the Commission to comment on diagnostic and remedial services for students with disabilities. However, from the standpoint of making the best use of available resources and removing inappropriate financial incentives, **the Commission has concluded that for the purpose of calculating grants, a standard proportion of the enrolment should be classified as having a learning disability, thereby assigning a recognized cost for this category of student in the same way as the category of students who are deemed to have a low cost disability.**

4. CONCLUSIONS AND RECOMMENDATIONS

The Commission has arrived at the following conclusions and recommendations:

- **The foundation grant formula is based on sound principles and is well structured.**

- **While the formula structure is fundamentally sound, substantial inequities arise and the equalization principle is compromised because recognized expenditures have fallen considerably below the level of actual expenditures of school divisions.**

  Overall expenditures by school divisions in Saskatchewan are not out-of-line, either in relation to expenditures in other provinces or in relation to the level of educational services desired by the public, but they substantially exceed the expenditures recognized in the foundation formula.

  It requires more in mills for the least wealthy school divisions to finance the differences between the recognized expenditures and the actual average level of expenditures than it does for the most wealthy school divisions. The least wealthy school divisions are faced with either having considerably higher mill rates than their most wealthy counterparts, or they must spend less, or both. This represents a substantial impairment of the equalization principle.

- **The Commission recommends that recognized expenditures be increased by approximately 11.5%.** This increase is necessary in order to restore the formula to the point where it is capable of bringing about full equalization. The Commission outlined 3 options, each with different cost implications, for achieving this increase. Under the option favoured by the Commission, $23.5 million would be added to the aggregate level of foundation grants.

- **The Commission recommends that the sparsity factor be phased out.**

  Other factors in the formula now achieve more effectively the objective behind the sparsity factor.

- **The Commission recommends that conditional funding for students with high cost learning disabilities be discontinued and that unconditional funding be sustituted to parallel the financial approach which is now used for students with low cost disabilities.**

  This will remove current inappropriate financial incentives for the designation of students with learning disabilities and will encourage more resources to be put into diagnosis and student services, rather than testing for eligibility for conditional grants.

PART IV

CAPITAL REQUIREMENTS AND FUNDING MECHANISMS

In this Part, the Commission deals with the financing of capital requirements of urban municipalities, rural municipalities and school divisions. Capital for hospital boards and library boards are dealt with in Parts V and VI of the report respectively, and comments in regard to Northern Saskatchewan are made in Part IX.

Part IV is divided into five chapters. Chapter One provides some general background information, Chapters Two to Four deal with urban and rural municipalities and school divisions respectively, and Chapter Five deals with central finance agencies.

CHAPTER ONE

BACKGROUND

1. THE NATURE OF CAPITAL

There are two main bases on which capital expenditures are distinguished from operating expenditures:

- Useful Lifetime

  Expenditures are generally considered to be of a capital nature if the result of the expenditure is the purchase or creation of an asset which has a relatively long useful lifetime. The construction of a bridge is considered to be capital, for example, because it is expected to provide benefits over several decades. The sweeping of streets, on the other hand, is considered an operating or non-capital expenditure because it is an activity which provides a benefit which is of relatively short duration after which it must be done again.

- Size of Expenditure

  Capital items are often large in comparison with annual operating budgets and, for this reason, they are often financed over a period of years. Multi-year financing is often accomplished either by accumulating a capital reserve over a period of years before the capital expenditure is made or by borrowing.

Capital expenditures are included in the operating accounts in three main ways:

- Capital items lose some of their value over time because of physical deterioration and obsolescence. This annual depreciation is treated as an operating expense by the private sector. The public sector normally does not treat depreciation as an expense.

- Where borrowing has been used to finance a capital expenditure, the amortized principal and interest costs are treated as an operating expense.

- Capital expenditures financed from current revenues are shown in the operating accounts as transfers to capital accounts.

What may appear to be an operating expense can also be capitalized. For example, if salaries and materials are associated with the construction or acquisition of a capital asset, they can be considered as capital expenditures and the costs can be financed over a number of years.

The major classifications of capital expenditures by local governments are:

- Land. The initial purchase price and improvements or modifications to the land, as in the case of parks, are considered as capital.

- Buildings. The cost of purchasing or constructing a building and major renovations which extend the useful life of the building are considered as capital.

- Infrastructure. The construction of and major repairs to water and sewage systems, roads and bridges are normally considered to be capital.

- Equipment. Major equipment purchases are normally considered to be capital.

Although it is possible to classify expenditures as being capital or operating on a theoretical level, actual practice varies considerably. The primary causes of these variations include:

- The size of the expenditure in relation to the level of total expenditure for the organization has a major influence. For example, cities tend to treat the cost of acquiring vehicles as an operating expense, while small urban municipalities would tend to treat them as capital expenditures in order to minimize the impact of the relatively large expenditure on the year in which the acquisition is made.

- Under the terms of certain capital grant programs of the provincial government, only certain types of capital expenditures are eligible for grant support. These grant policies tend to influence accounting practices at the local level. For example, the school capital grant program supports only the direct costs of constructing schools or the costs of major renovations while smaller renovations are not eligible for grant support. Accordingly, school divisions tend to treat smaller renovations as operating expenditures, even though they could be considered to be capital.

> The construction of roads and streets in rural and urban municipalities can be classified as capital expenditures because their useful life extends over a number of years. However, because expenditures in this area occur year after year, the general practice of rural municipalities is to treat them as operating expenditures.

Variations in accounting practices among local governments make it difficult for provincial authorities to record expenditures consistently. It is correspondingly difficult to analyze accurately data on capital expenditure.

2. LEVEL OF CAPITAL EXPENDITURES

Chart IV-1 displays the capital expenditures of urban municipalities, rural municipalities and school divisions for 1975, 1980, and 1985. Appendix IV-1 provides data for each year, from 1975 to 1985, inclusive. It should be noted that these figures are based on the definitions of capital expenditures used by each type of local government and that these definitions are not necessarily the same.

During this 11 year period, the compound average annual rate of increase in capital expenditures was 8.2% for urban municipalities, 9.5% for rural municipalities, and 10.9% for school divisions.

In 1985, the estimated $134.5 million in capital expenditures by urban municipalities amounts to $194 per urban resident.[1] For every $100 spent by urban municipalities on net operating expenditures, they spent $32 in capital expenditures.

Rural municipalities had an estimated $16.9 million in capital expenditures in 1985, or $70 per rural resident. For every $100 in net operating expenditures, they had $13 in capital expenditures. If road construction were treated as capital expenditures, the total capital expenditure of rural municipalities would be $62.3 million or $259 per capita.

Capital expenditures on school construction and major renovations are estimated at $50.5 million for 1985. In addition, an estimated $7.0 million will have been spent on instructional furniture and equipment, land and other capital expenditures. Total school capital expenditures of $57.5 million represents $8 for each $100 of net operating expenditures by school divisions.[2]

3. SOURCES OF FINANCING

There are two basic methods for financing capital projects, namely: "pay-as-you-go" which involves extensive use of current funds and limiting the amount of long-term debt used, and "pay-as-you-use", which involves extensive use of long-term debt and a limited amount of current funds.

The "pay-as-you-go" principle minimizes costs associated with the borrowing of funds, but does make the current taxpayers pay for projects which are also used by later generations of taxpayers. The premise of "pay-as-you-use" is that the costs of capital projects should be paid over the useful life of the asset by those who use the asset, even though the debt costs results in the project costing more than if the project had been paid for at the time of acquisition.

The major sources of capital financing are as follows:

A. Debt

Local governments issue debentures or borrow funds from financial institutions as one means of raising revenue to finance capital expenditures. Loans and debentures are used either because they are needed to make up a shortfall in revenues from other sources, or as a means of spreading the cost of the project more evenly over the lifetime of its use.

All long-term debt incurred by local governments, which is defined as debt not payable within the current year, must be approved by the Local Government Board. Because of high interest rates and the reluctance of lenders to commit funds for relatively long time periods in recent years, the Local Government Board has, as a matter of Board policy, limited the term of debentures to 10 years or less. The Board has also encouraged shorter term capital financing of two to three years through loans, rather than debentures, in view of the cost of issuing debentures and the uncertainty over interest rates.

On a per capita basis, local governments in Saskatchewan have utilized capital debt to a much smaller extent than local governments elsewhere in Canada. This is evidenced by the comparative amounts of unmatured principal of debenture and long-term loans:

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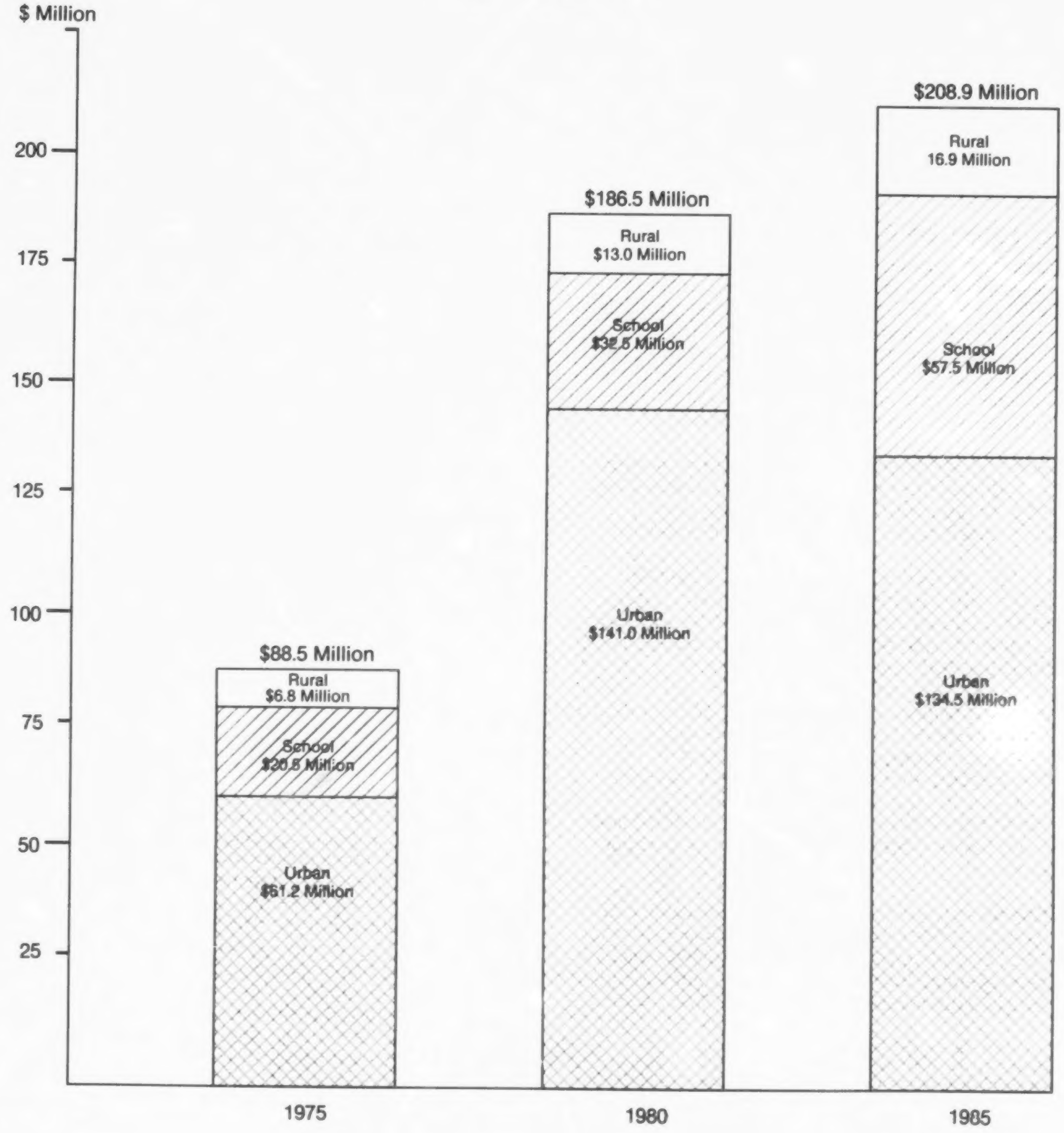
[1] Based on the 1981 census population of 691,023 for urban municipalities, including Lloydminster, Alberta, and 239,974 for rural municipalities.

[2] Net operating expenditures for municipalities are defined as total operating expenditure minus transfers to other funds in order to avoid double counting of expenditures. For school divisions, net operating expenditures are defined as total operating expenditure minus contributions to capital and provisions for reserves. In 1985, net operating expenditures are projected to total $414.7 million for urban municipalities, $126.1 million for rural municipalities, and $721 million for school divisions.

CHART IV-1

CAPITAL EXPENDITURES OF URBAN MUNICIPALITIES, SCHOOL DIVISIONS, AND RURAL MUNICIPALITIES 1975, 1980, AND 1985



- As of December 31, 1984, Saskatchewan local governments had a long-term debt of $396 per capita, which is lower than any other province in Canada, except Prince Edward Island which was at $373 per capita.[3]

- Manitoba had more than twice the per capita local government capital debt of Saskatchewan; British Columbia had nearly four times as much; and Alberta had about five-and-one-half times as much.

- In 1982, debenture debt charges in Saskatchewan amounted to an estimated $35 per capita, the lowest of any province except Prince Edward Island. The national average is more than two-and-one-half times Saskatchewan's amount.[4]

B. Reserves and Trust Funds

Reserves and trust funds are monies set aside by local governments over a period of years for future capital projects. The funds may be intended for either specific projects that have been planned, or for undefined general capital purposes.

The use of reserve funds is common among all types of municipalities. Towns, villages and rural municipalities, have made particular use of capital trust funds. The creation of these funds and subsequent additions to and withdrawals from the fund are subject to the approval of the Local Government Board. Although capital trust funds are more cumbersome mechanisms than reserves for setting aside funds for future capital purposes, the added assurance that the monies can only be spent for approved purposes is an attractive feature for many municipalities.

C. Current Local Revenues

Current local revenues are revenues raised from local property taxes and other local sources for the general use of the local government. These revenues are used primarily to finance the current operating expenditures of the local government, but they also can be used to finance capital expenditures.

In effect, the extensive use of these current local revenues means that capital projects compete with current operating expenditures for the available dollars. As noted earlier, capital projects have a useful life over several years and, as such, they provide a stream of benefits over their lifetime. To the extent that the contribution from current local sources exceeds the benefit received currently, then this form of capital financing results in a degree of income redistribution from current taxpayers to future taxpayers.

D. Utility Charges

Utility charges are paid by users of utilities in relation to their use of the utility. For example, charges for the consumption of electricity or water are based on the amount of electricity or water used. This reflects the benefit theory of financing public services.

Utility charges may be designed to cover only the operating costs of the utility, or they may be used as well to cover all or a portion of the capital costs.

E. Grants

A major source of financing for capital expenditures are grants from senior levels of government. There are various reasons for or objectives behind capital grant programs, and individual grant programs may be based on more than one of these objectives:

- Benefits Beyond Municipality

  Some conditional grant programs are designed to encourage the construction of capital facilities that provide a benefit beyond the boundaries of the municipality and which may not be built, or built to the optimal size in the absence of provincial assistance.

  For example, airstrips serve the needs of people throughout the province, not just those who live in the immediate municipality or the immediately adjacent municipalities. The benefits of the airstrip to the "host" municipality might not be sufficient to justify the "host" municipality undertaking the project entirely with its own resources but, with assistance from the senior governments, it may become a viable project.

- Encourage Types of Facilities

  The provincial government may believe it is in the overall public interest to encourage particular types of facilities throughout the province. For example,

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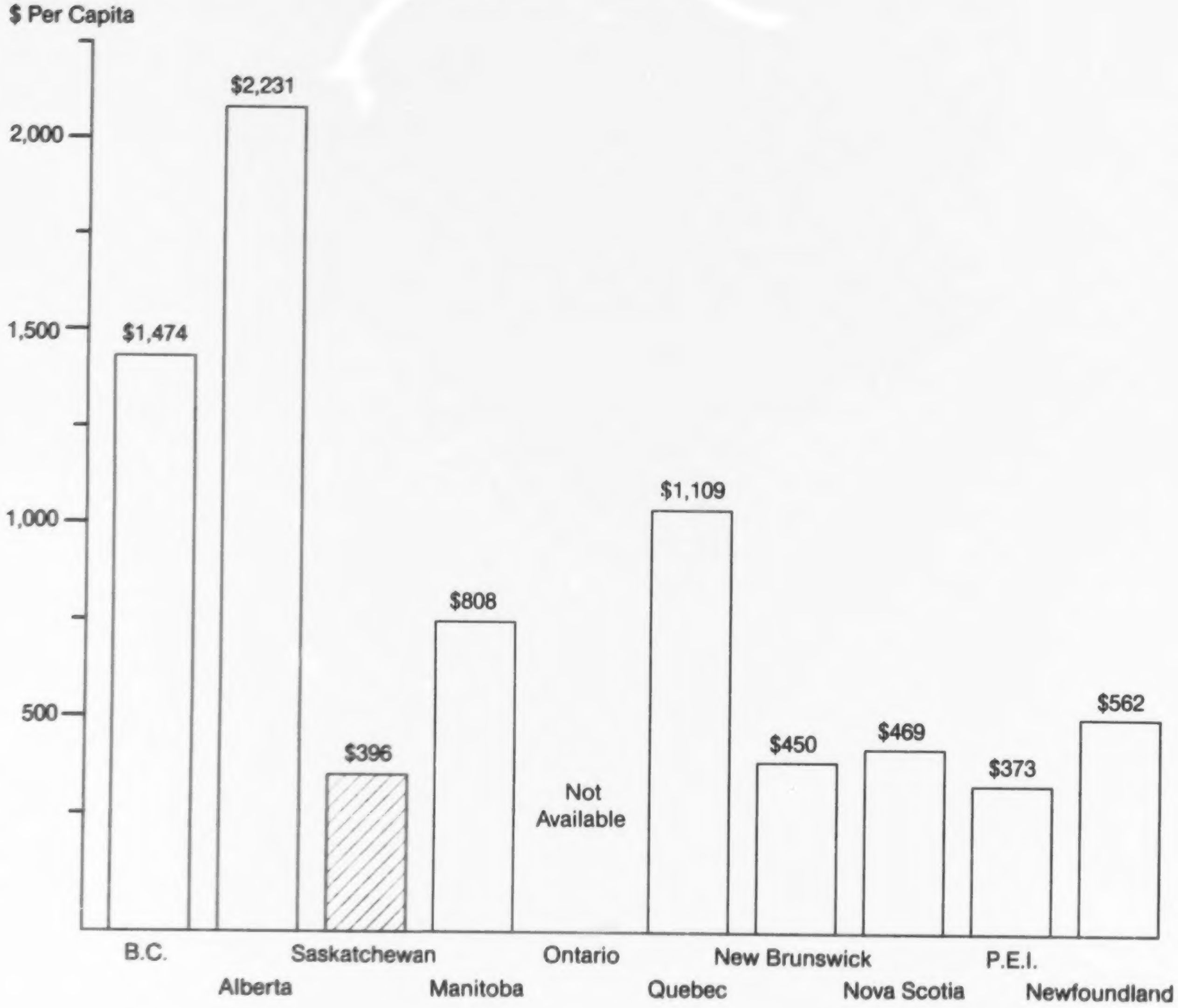
[3] See Appendix IV-7.

[4] See Chart IV-2 and Appendix IV-8.

CHART IV-2

PER CAPITA DEBENTURE AND CAPITAL LOAN DEBT AS OF DECEMBER 31, 1984



a number of years ago the provincial government believed that greater opportunities for recreation and the improvement of physical fitness were required, and implemented the Cultural and Recreational Facilities Grant program which provided financial assistance for facilities that would meet those needs.

- Enforce Standards

  Some standards can be enforced by regulations, while other standards can be implemented by making grants available on the condition that certain standards are met.

  The grid road program is an example of an endeavour to provide a province-wide transportation network that meets particular standards. Grants are made available for roads in particular locations on the condition that certain standards be met.[5]

- Stimulate Economy

  From time to time, the federal or provincial governments may believe that the economy requires stimulation and make grants available to municipalities with the intent of encouraging public spending and generating employment.Winter works programs are examples.

- Meet Particular Needs

  From time to time, local governments may have a need which cannot be met without putting an undue strain on local revenues. This situation may arise because an expenditure requirement is very large relative to its local tax base. For example, a community may require the development of a distant water supply that is very costly.Water assistance grants are an example of a program designed to meet such needs.

- Equalization

  By providing capital grants, the provincial government may hope to enable a greater number of local governments to avail themselves of capital facilities without unduly high local tax rates, thereby promoting a greater degree of equality in facilities and local tax rates than would otherwise be the case.

- Reduce Reliance on Local Revenues

  By providing capital grants, the degree of reliance on local revenues can be reduced from what it would otherwise be.

4. CONDITIONALITY/ UNCONDITIONALITY

All capital grants have some conditionality associated with them, but the degree of conditionality varies considerably.

The Commission believes that there is a need for both conditional and unconditional capital funding from the provincial government.

The arguments in favour of unconditional funding are as follows:

- Local Judgments

  The type of capital need varies among individual local governments. Local officials are in the best position to make judgments about what types of capital facilities are most needed in their respective communities.Capital grants which are paid only for certain types of projects reflect an assumption that provincial authorities are better able to make those judgments than local people.

- Artificial Priority

  Conditional grants can create an artificial priority for certain projects, and this may not be in the public interest. For example, a conditional grant program for the construction of recreation facilities provides an incentive for communities to choose that type of project even though it may be a low priority for the particular community. If funds were provided unconditionally, a municipality may also choose to use the grant monies for recreation facilities, but only if they were a priority in the community.

- Autonomy

  Unconditional allocations are compatible with encouraging local decision-making and local autonomy.On the other hand, excessive conditionality forces local governments to choose certain projects over others simply because grants are available for some projects and not others, and this is an infringement on local autonomy.

Conditional grant programs are required because there are certain major capital needs that do not occur uniformly over time or for which there are substantial differences in need among local governments. For example:

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[5] The Commission recognizes that there are various viewpoints as to whether this program should be considered a "capital" program.

- Some rural municipalities may have essentially the same type of overall expenses to meet the needs of its road system, but may have a very high expense for building and maintaining bridges that other municipalities do not face. A grant program that provides provincial assistance for bridges has merit in meeting this particular type of need.
- At different times, different urban communities have been faced with the need to make very large expenditures for their water supply. In some of these situations, special assistance targetted at meeting this particular need has been required because the expenditure has been beyond the financial capacity of the local community to meet.
- Some school divisions have a relatively static school enrolment and require only maintenance of existing facilities, rather than the construction of new facilities. On the other hand, some divisions have increases in enrolments or shifts in the location of students, necessitating the construction of new schools in those particular school divisions at a particular point in time.

In all of the above-noted cases, it makes little sense to make large payments of capital monies to **all** jurisdictions to cover specific major needs when only some of them have particular needs of major proportions.

CHAPTER TWO

URBAN MUNICIPAL CAPITAL

1. OVERVIEW OF EXPENDITURES AND REVENUES

Capital expenditures by different categories of urban municipalities over the 1971 to 1985 period are outlined in Appendix IV-2.

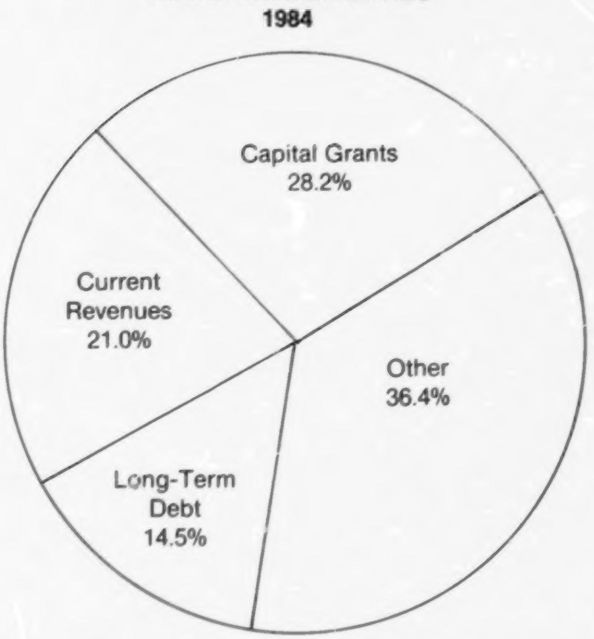
Over this period, total urban municipal capital expenditures increased by a compound annual average rate of 14.6%. The capital expenditures of cities increased by 13.7% per year, while the increases were 16.6% and 18.2% per year, respectively, for towns and villages.

The average per capita expenditure over the 1977 to 1985 period was $192.14 for urban municipalities as a whole. Villages and towns spent $133.36 and $212.72, respectively. Cities spent $193.16 per capita, very close to the overall urban average. Villages had 9.1% of the population in 1981, but accounted for only 6.3% of the capital expenditures. Towns had 22.7% of the population and accounted for 25.1% of the total capital expenditure. For the cities as a group, its share of the population and capital expenditures was very similar.[1]

Over the 1971 to 1983 period, the bulk of urban municipal capital expenditures were accounted for by two main categories. Transportation (streets, sidewalks, bridges and transportation machinery and equipment) amounted to 36.0% of total urban capital expenditures, while utilities accounted for 31.4%. Recreation and culture accounted for 14.6% of total urban capital expenditures. Capital expenditures for general government accounted for 5.2%, protective services 4.3%, environmental health 3.6%, public health and welfare 0.4%, and environmental development 4.3% of total urban capital expenditures.[2]

Chart IV-3 shows the main sources of financing for urban municipal capital expenditures for 1984. Capital grants from provincial and federal governments constituted 28.2% of the total source of financing, current revenues 21.0%, long-term debt 14.5%, and other various sources 36.4%.[3]

CHART IV-3
SOURCES OF CAPITAL FUNDING
URBAN MUNICIPALITIES
1984



Within the 1971 to 1984 period, there have been some substantial shifts in the importance of the different sources of revenue.[4] From 1971 to 1974, inclusive, capital grants constituted only 17.0% of the total, while over the 1980-84 period, they constituted 33.3%. Long-term capital debt constituted 28.0% of the total in the 1971-74 period, but in the 1981-84 period, this had dropped substantially to 17.6%. In the same respective time periods, current revenue contributions remained relatively constant, while other sources of revenue dropped by about 5 percentage points from 33.9% to 28.7%.

CAPITAL DEBT

Urban municipal debenture debt rose from $127.9 million in 1973 to $170.4 million in 1984, a compound average annual rate of increase of 2.6%.[5] This compares with compound annual rates of increase of 14.4% in operating expenditures and an 18.5% in capital expenditures over that same period.

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[1] See Appendix IV-3.

[2] See Appendix IV-4.

[3] See Appendix IV-5 for the sources over the 1971 to 1984 period, and for a definition of each of the sources.

[4] See Appendix IV-6.

[5] See Appendix IV-9.

Debenture debt has been declining as a proportion of capital expenditures over the past decade. From 1976 to 1980 inclusive, debenture issues amounted to an average of 18.9% of capital expenditures while, in the subsequent 5 year period from 1981 to 1985, they amounted to 11.1%.[6]

Expressing urban municipal debenture debt in constant dollars (to take into account the effects of inflation), the level of debenture debt has actually declined over the past 13 years.The 1984 level was about 45% of the 1971 level.[7]

While total urban municipal debenture debt outstanding has increased from $127.9 million in 1973 to $170.4 million in 1984, in the same period, the debenture debt of villages has decreased from $8.7 million to $1.7 million, and the debenture debt of towns has decreased from $29.0 million to $21.1 million.[8] In effect, the cities have accounted for all of the net growth in total urban municipal debenture debt outstanding.

In 1973, urban municipalities accounted for 61.6% of all outstanding local government debenture debt but, by 1984, this had fallen to 47.3%.[9] This shift in share of debenture debt is due to the slight drop in the rate at which debenture debt was issued by urban municipalities in the latter half of the 1975 to 1984 period, while at the same time the rate at which school divisions issued debentures increased three-fold.[10]

OTHER LOCAL SOURCES

Other local sources of urban capital financing include transfers from reserves, prepaid local improvement charges, proceeds from the sale of property or other capital assets, etc.. For purposes of this report, other sources of revenue is treated as the residual or balancing amount required to finance the total urban capital expenditures for each year, after the other specific sources of revenue have been taken into account.

For the period 1971 to 1974, other sources of capital revenue accounted for 33.9% of total urban capital financing, compared to 32.5% in the 1975 to 1979 period, and 28.7% in the 1980 to 1984 period.[11]

CAPITAL GRANTS

In 1985-86, provincial capital grants totalled $33.3 million, Appendix IV-15 summarizes the amounts paid out under various provincial grant programs from 1975-76 to 1985-86, inclusive. Capital grants peaked in 1982-83 at $55.0 million, the same year that capital expenditures peaked.

Capital grants in 1984-85 and 1985-86 have declined sharply both in absolute dollar terms and as percentages of capital expenditures in relation to the 3 year period 1981-82 to 1983-84. However, on a longer term perspective, capital grants amounted to 29.9% of capital expenditures for the period 1981 to 1985 compared to 25.4% for the period 1976 to 1980 and 31.4% for the period 1971 to 1975.[12]

In 1985-86, there were 10 provincial capital grant programs for which urban municipalities in general were eligible, and 4 special grant programs to specific communities. Only one of these programs, the Provincial Capital Fund (P.C.F.), provided monies on an unconditional basis.[13]

Most of the provincial grant monies were paid out under 4 programs in 1985-86 - P.C.F. at $12.5 million, Municipal Water Assistance at $3.6 million, Urban Assistance at $5.0 million and Cultural and Recreation Facilities at $4.6 million.

Federal capital grants to urban municipalities for general purposes have virtually disappeared and have been replaced by one-time grants to selected municipalities for specific projects such as the Regina/Moose Jaw Water Filtration project.

PROVINCIAL CAPITAL FUND (P.C.F.)

The Provincial Capital Fund, and its predecessors the Community Capital Fund and the Community Capital Fund Program, provides funding on an unconditional basis.

The Provincial Capital Fund is a two year program which provides a maximum of $25 per capita per year to all urban municipalities for the purchase or construction of capital works and the purchase of equipment. Centres over 10,000 population must utilize their annual allocation within each year, while smaller centres may use their total allocation in any year of the program. P.C.F. is considered to be an unconditional grant program, because there are no conditions on the specific capital projects eligible for assistance.However, there are some conditions which apply to the eligibility for funding, namely:

- Eligibility is restricted to current capital purposes and funds are not provided for reserves, for financing the amortized costs of former projects, nor for operating expenditures.

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[6] See Appendix IV-10.

[7] See Appendix IV-11. Another measure of the level of debenture debt is to compare the outstanding indebtedness with the amount of total operating revenues. In 1973, outstanding debenture debt amounted to 134.2% of operating revenue, while by 1984, this had fallen to 41.2%. See Appendix IV-12.

[8] See Appendix IV-9.

[9] See Appendix IV-13.

[10] See Appendix IV-14.

[11] See Appendix IV-6.

[12] See Appendix IV-16.

[13] See Appendix IV-17 for a brief description of each of these programs.

- Grants are limited to 60% of the cost of the project/purpose. If the project is eligible for other grants, the total grants are limited to 75% of the project cost.
- Urban municipalities must incur a minimum proportion of the total estimated expenditure before grants are made available.
- Urban municipalities must submit a five year capital plan to the provincial government before they are eligible under the program.

In 1985-86, unconditional funding represented 42.5% of total provincial capital grants to urban municipalities. This is a significantly higher proportion than the 5 year period from 1980-81 to 1984-85 which averaged 30.1% and is also higher than the 1975-76 to 1979-80 period which averaged 37.1%.[14]

CULTURAL AND RECREATIONAL FACILITIES GRANT

The Cultural and Recreational Facilities Grant program is a 5 year, conditional capital grant program designed to assist municipalities and other local entities to construct or upgrade cultural and recreational facilities. The maximum grant entitlement is comprised of a base amount of $5,000, a per capita amount of $25 (equivalent to $5 per capita per year), and an incentive grant of $5 per capita for projects involving 2 or more urban municipalities.

The current program is scheduled to expire on March 31, 1988.This is the second 5 year, conditional capital grant program for cultural and recreational facilities.

URBAN ASSISTANCE

Urban Assistance is a conditional capital grant program to assist municipalities to construct roads designated as highway connectors, interchanges, bridges, and transportation studies. Starting in 1985-86, major arterial roads were no longer eligible for assistance. At the same time, the Provincial Capital Fund was established and an additional $5 per capita was added to the Fund to offset the elimination of the conditional road assistance. The maximum grant is based on 50% of construction costs in centres over 15,000 population and 75% of costs in smaller centres.

2. OVERVIEW OF ISSUES

A number of issues arise in regard to the level of capital expenditures required by urban municipalities and the ways in which those expenditures may be financed.

- Level of Expenditures Required

  A key question is the aggregate level of capital expenditures which urban municipalities will be required to make in the future. The magnitude of expenditures that are required obviously affect the means by which they may be financed.

- Sources of Financing

  There are several sources available for the financing of capital projects, including long-term capital debt, current revenue, the accumulation of reserves and capital funds, and capital grants. The relative reliance that should be placed on these sources is an issue.

- Continuity and Planning

  Municipalities like to have continuity in provincial capital programs because it assists them in their capital planning processes. The types of programs and mechanisms which will promote the ability of municipalities to plan is, therefore, another issue, particularly in regard to whether or not programs such as the Community Capital Fund and the Provincial Capital Fund should be continued.

- Method of Payment of Grants

  A number of issues arise as to whether grants should be paid unconditionally or conditionally, and their degree of conditionality or unconditionality. Issues also arise in regard to whether unconditional grants should be paid on a per capita or an equalization basis.

- Financing of Utilities

  Issues arise as to the means of financing utilities particularly water and sewer utilities. The role of the Saskatchewan Water Corporation in the financing of such utilities also arises.

3. ANALYSIS OF ISSUES

A. Level of Expenditures Required

Determination of the level of capital expenditures required by urban municipal governments is a very complex and subjective matter. On the one hand, there are practically no limits to the number of projects which could be considered worthwhile or desirable. On the other hand, there are other considerations which serve to put limits on the amount of capital expenditure which is desirable in any one year, including the increased operating costs associated with some capital projects, the fact that capital needs can be met over either a short or a long period of years, and the need to set priorities among possible projects so that the most important ones proceed. The type of project which should have priority, and the degree of urgency in meeting the need are questions to which many answers can be given, depending upon the value judgments of individuals.

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[14] See Appendix IV-18.

One means of projecting capital expenditures is to undertake surveys of municipalities to determine what they perceive their own needs to be. In 1984, the Saskatchewan Urban Municipalities Association undertook such a survey, but there was considerably less than full response by municipalities. The Department of Urban Affairs used these partial survey results as a means of extrapolating what all municipalities would have collectively projected had they all replied to the survey. The results of this projection are shown in Table IV-1.[15]

The extrapolated S.U.M.A. survey projects capital expenditures averaging $235.8 million per year over the 5 year period, 1986 to 1990. This represents an increase of 58% over the average actual annual expenditures in the 1981 to 1985 period.

The Commission also made a projection based on the long-term trends since 1971. This projection suggests that capital expenditures in the 1986 to 1990 period will average approximately $167 million per year, an increase of 12% over the immediately preceding 5 year period.

Some might point to the study of urban municipal infrastructure undertaken by the Federation of Canadian Municipalities as a basis for support for the projections based on the S.U.M.A. survey. The F.C.M. undertook a survey of urban municipalities in Canada and concluded that urban municipal infrastructure, particularly streets, roads, sidewalks, bridges and sewer and water systems, were deteriorating and that an expenditure of $6.3 billion would be required to bring this infrastructure up to standard.[16]

TABLE IV-1
ACTUAL AND PROJECTED CAPITAL EXPENDITURES URBAN MUNICIPALITIES

Year	Actual Expenditures ($ Millions)	Projections Based on Survey ($ Millions)*	Commission Projection ($ Millions)
1971	$ 19.9		
1972	21.7		
1973	23.1		
1974	37.4		
1975	61.2		
1976	90.4		
1977	85.3		
1978	94.9		
1979	127.2		
1980	141.0		
1981	153.0		
1982	173.8		
1983	136.8		
1984	148.9		
1985	134.5		
1986		$260.6	$145.5
1987		284.2	156.5
1988		241.5	167.5
1989		204.1	178.5
1990		183.6	188.5

*This is based on a survey of urban municipalities conducted in 1984 by the Saskatchewan Urban Municipalities Association, to which not all municipalities responded. The Department of Urban Affairs used the partial results to extrapolate what the responses would have been had all municipalities responded to the survey.

If the Canadian average per capita expenditures in infrastructure derived from the F.C.M. study were applied to Saskatchewan, about $558 million would be required. This corresponds relatively closely to the projected expenditure of $561 million for these same categories of capital derived from the S.U.M.A. survey for the 1986 to 1990 period.

The Commission believes that F.C.M. has done a public service in drawing attention to the emerging issue of quality of infrastructure. In terms of reaching conclusions about Saskatchewan, however, the Commission notes as follows:

- There were so few respondents to the F.C.M. survey for municipalities in the 10,000 to 100,000 population category that little reliability can be placed in the results.

- There were also few municipalities of under 10,000 in population responded to the F.C.M. survey. Municipalities of less than 10,000 population constitute a substantial portion of Saskatchewan's urban population.

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[15] See Appendix IV-19 for a breakdown of these projections into categories.

[16] **Canada's Urban Infrastructure, Physical Condition and Funding Adequacy,** Federation of Canadian Municipalities, June, 1984.

- Infrastructure in Saskatchewan can be expected to be considerably newer than in the eastern provinces whose large populations would tend to dominate survey results. Consequently, the degree of deterioration in Saskatchewan's urban municipal infrastructure can be expected to be less.

- To the extent that there is a problem with quality of infrastructure, it may be overly ambitious to suggest that it must be brought up to standard in a period of only 5 years. A longer period such as 10 years may be suitable and more practical.

The Commission has concluded that there are no apparent signs of a major backlog of capital requirements in Saskatchewan and that its projection of capital requirements based on long-term trends is likely to be closer to actual requirements than the results of the S.U.M.A. survey. The reasons for this conclusion are as follows:

- Municipalities are lagging in their use of provincial government capital grant programs. For example, only 2 years remain in the 5 year Culture and Recreational Facilities Grant Program, yet to the end of March 31, 1986, only $13.5 million of the estimated $32 million had been paid out under the program. A total of $17.0 million, more than one-half the 5 year allocation, has been uncommitted (not yet assigned to projects proposed by municipalities).

  Similarly, at the end of March 31, 1986, only slightly more than one-third of the monies under the Provincial Capital Fund had been paid out, even though one-half of the 2 year period for the program had transpired.

  The Commission recognizes that there are some problems for municipalities, particularly the smaller ones, in taking advantage of the monies in the two programs mentioned, and recommendations are made in this report to deal, in part, with this situation. Nevertheless, the slow "take-up" of provincial grants is hardly a symptom of a backlog of capital requirements.

- Urban municipalities in Saskatchewan have a very low level of capital debt. If there were pressing needs for major additional capital expenditures, municipalities could be expected to use this as a source of financing to a greater extent.

In short, the Commission believes that capital expenditures of approximately $167 million per year over the next 5 years are likely to meet the reasonable capital needs of urban municipalities.

B. Sources of Capital Financing - General

The Commission examined the various sources of capital financing which are available to municipalities:

1) Capital Debt

   As noted earlier, capital debt has played a declining role in the financing of urban municipal capital projects. In the 1980 to 1984 period, capital debt constituted only 17.6% of the revenue used for capital projects, down considerably from the 28.0% for the 1971 to 1974 period. Both unmatured local government capital debt and non-education capital debenture debt charges are lower on a per capita basis in Saskatchewan than in any other province, except Prince Edward Island.[17]

   The Commission believes that the relatively low level of capital debt in Saskatchewan municipalities points to the potential for greater use of debentures and capital loans as a means of financing capital requirements.

   Excessive use of capital debt can unduly burden future taxpayers who must be responsible for retiring the debt. However, the extremely low level of capital debt in Saskatchewan suggests that considerably more capital debt could be used before it became burdensome.

   A distinction must be made between borrowing for ongoing operating purposes on one hand, and for capital purposes on the other hand.Municipalities are not empowered to borrow to finance ongoing operating expenditures, nor should they be because borrowing for such purposes would be contrary to the prevailing view of financial prudence. However, borrowing for the purpose of acquiring a capital asset which will provide benefits over a long period of years is quite legitimate. It permits projects to be undertaken that would not otherwise be possible. It also enables the municipality to allocate some of the capital costs over future taxpayers who will enjoy the benefits of the capital project.

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[17] See Appendices IV-7 and IV-8.

2) Current Revenue Contributions

Current revenue contributions have constituted an average of about 20% of total capital revenue over the 1971 to 1984 period.There are no overall trends, either up or down, in relation to this average.

The Commission believes that 20% is a very substantial percentage of capital costs to be financed from current revenue. The Commission believes that it should not be looked to as a source from which substantially more monies above the current level of approximately $30million[18] per year should be raised.

3) Revenue from Utilities

Capital expenditures on utilities constitute a major portion of overall urban municipal capital expenditures. Over the 1971 to 1983 period, utilities accounted for 31.4% of the total capital expenditures.

The Commission believes that greater emphasis should be placed on the self-financing of utilities, particularly sewer and water utilities. In other words, utility charges should be set at levels where they will not only pay for the ongoing operating costs of the utility, but for the amortized cost of the capital facilities as well.

The costs of major utilities operated by provincial Crown corporations are financed through user charges. For example, the bulk of new electrical generating facilities constructed by the Saskatchewan Power Corporation are financed by capital borrowing. The debt is retired through the revenues gained from appropriately set electrical rates.

The Commission believes that there are three main benefits which can be derived from having self-financing municipal utilities:

- Municipalities which now incur operating deficits in the operation of their utilities, must finance those deficits from general operating revenues, thereby tending to put additional demands on the local property tax. Setting utility rates at levels which fully cover operating costs would ease the demands currently placed on the property tax.
- If municipalities were to borrow for their capital expenditures on utilities, utility rates could be set at levels sufficient to cover both the operating costs and the retirement of the debt. This spreads the capital cost of the utility over the generations who actually use the utility, rather than placing an undue burden on current taxpayers.
- Municipalities which borrow to finance capital utility costs can reallocate the capital grants they may have otherwise used for the utility to other projects required in the municipality. This will make it possible to meet more of the non-utility capital needs in the municipality.

The Commission reviewed data on water and sewer utility rates in urban municipalities in Saskatchewan[19] and concluded that rates in general were modest and that an excessive burden would not be created in most municipalities if water and sewer utilities were made self-financing.

The Commission believes that in regard to user charges in general, the following considerations should be examined:

- User charges should only be used where the amount of use of the service can be reasonably and readily quantified.
- User charges are particularly appropriate for financing services for which conservation of usage is an objective.
- Limits may have to be placed on user charges for utilities for which the community interest is served by having greater usage.

The Commission believes that having user charges on sewer and water services at levels that recover both operating and capital costs meets the foregoing criteria. In regard to the third consideration, transit fares are usually set at levels below full cost recovery because of social policy objectives and the expectation that usage of the utility would decline, thereby jeopardizing its overall viability.

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[18] See Appendix IV-5.

[19] See Appendix IV-20.

User charges can finance the capital cost of utilities, even if the capital cost is financed by means other than capital debt. If a utility currently has no capital indebtedness, but it is anticipated that capital expenditures will be required in the future, utility rates can be set at levels which makes it possible to set aside monies in a reserve each year for the financing of that future capital expenditure.This means of financing tends to cause current users of utilities to pay for the capital facilities from which other users will benefit in the future. There is nothing inherently wrong with these intergenerational transfers of costs and benefits, but it is important that they be recognized and understood by those who make the decisions.

In short, the Commission believes that user charges should be a major source of financing for capital costs of utilities.

4) Capital Grants

Capital grants from the provincial government are also important sources of financing for municipal capital projects.

In some respects, the Commission believes that senior government grants play too large a role in local decision-making on capital projects.There is a tendency for municipalities to make the availability of capital grants the focal point of their planning processes. It would be preferable for municipalities to make decisions on priorities for capital projects and their timing on the basis of the respective needs to be served by the project rather than on the size and timing of provincial grants and the conditions which may be attached to the grants. However, it is understandable that municipalities wish to take full advantage of available funding from senior governments so as to meet their local needs at a minimum cost to the local taxpayer.

The Commission noted earlier that the level of provincial capital grants had declined sharply in 1984-85 and 1985-86 relative to the immediately preceding 3 year period. This decline took place both in overall dollar terms, and in terms of the percentage of capital expenditures made by municipalities in those years.[20] See Chart IV-4.

Some might argue that it is appropriate for the aggregate level of capital grants to remain at their current level on the basis of the following:

- The "take-up" of grant monies under the Provincial Capital Fund and the Cultural and Recreational Facilities Grant Program is lagging.
- Municipalities are issuing relatively little long-term debt.

It might be argued that if municipalities required more capital projects than they are now undertaking, then they would be drawing more promptly upon the available grants and they would be financing more capital projects through capital loans or debentures.

The Commission believes that municipalities will begin to increase their capital expenditures over the next five years to meet their ongoing needs in accordance with the projections noted earlier. In this context, the Commission notes there has been a recent decline in the overall level of provincial capital grants.

C. Grants: Conditional v.s. Unconditional

Currently, only Provincial Capital Fund grants are paid on an unconditional basis. In 1985-86, P.C.F. accounted for $12.5 million of the total of $33.3 million in provincial capital grants. All other current grant programs are intended for specific purposes and are available to municipalities only if particular criteria are met. The question arises as to which type of grant is preferable.

The Commission believes that both unconditional and conditional grants are required. Unconditional grants are a preferable means of providing provincial financial assistance in regard to capital needs which occur relatively uniformly throughout urban municipalities of different sizes and circumstances.Examples of capital needs that are common to nearly all urban

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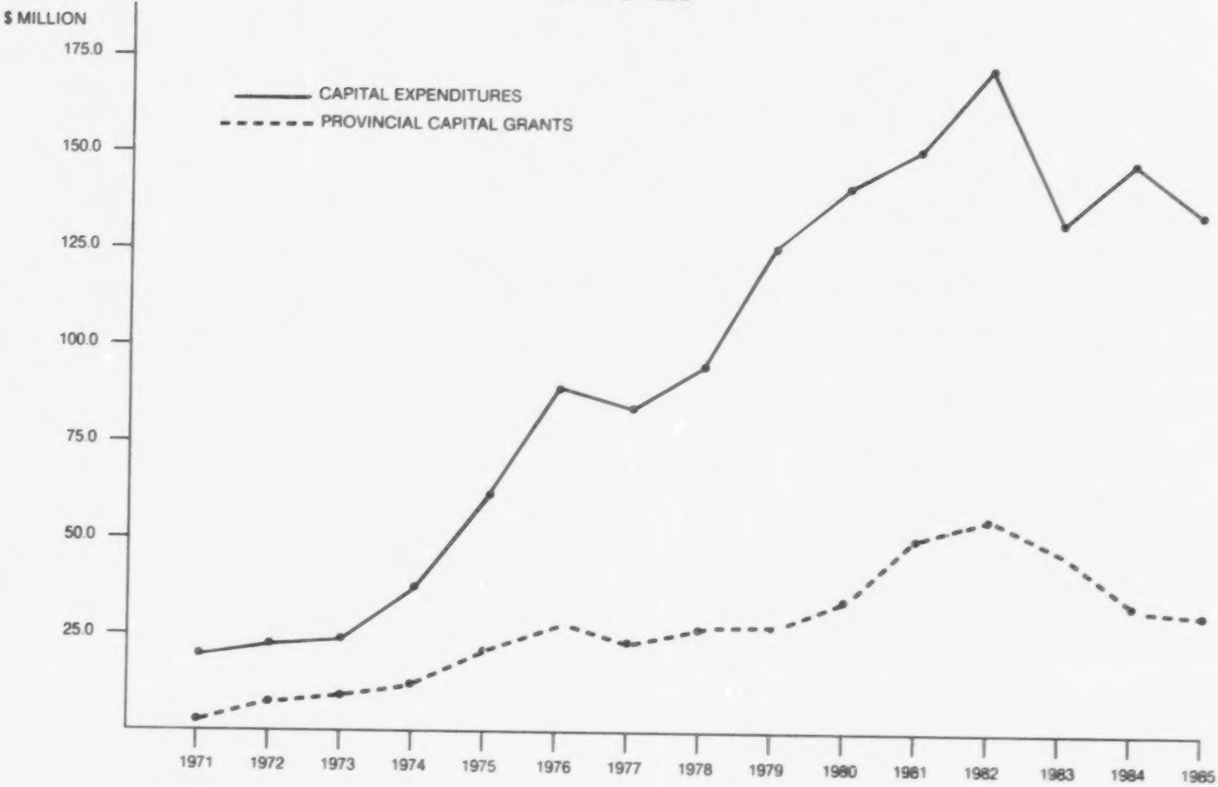
[20] See Appendix IV-16.

CHART IV-4
URBAN CAPITAL EXPENDITURES AND PROVINCIAL CAPITAL GRANTS
1971 TO 1985



municipalities are street maintenance equipment, municipal offices, recreation facilities, street and road construction and municipal buildings.

Unconditional grants are preferable in meeting these general types of capital needs because it allows each municipality to identify its own needs and set its own priorities. Because grants are unconditional, municipalities are able to make best use of the monies and do not have their priorities distorted by the availability of capital grants for some projects, but not others.

Conditional grants are needed to provide assistance under special circumstances in regard to particular needs that do not occur uniformly among municipalities. Where a need arises in regard to a particular type of needed project for a particular municipality at a particular point in time, it is preferable to have a grant program available to meet that particular need.It would be an inefficient use of provincial grant monies to provide all municipalities with a high level of capital grants in hopes of meeting the capital needs of all of them. This would provide some municipalities with more than they required, while other municipalities still would not have sufficient assistance.

Conditional grants also have other roles to play. As pointed out in Part IV, Chapter One, conditional grants are sometimes required in order to enforce standards, fulfil a priority of the provincial government, or to ensure broad societal needs that go beyond the boundaries of individual municipalities are met.

In short, unconditional grants are preferable for assisting municipalities with their general capital needs, while conditional grants are required to meet unique needs.

The Commission believes that an unconditional capital grant program like the Provincial Capital Fund should be continued.

The Commission believes that each of the current conditional capital grant programs such as Municipal Airports and Urban

Assistance, has a useful role and that these conditional capital grant programs should be continued.

In regard to the Cultural and Recreational Facilities Grant, the Commission believes that municipalities would be best left to make their own decisions on whether those types of facilities, or others, are required in their respective municipalities. Cultural and recreational facilities may be the highest priority for some municipalities, while other municipalities may have different priorities. While there may have been a need at one time to promote the construction and upgrading of cultural and recreational facilities through conditional grants, the Commission believes that circumstances have changed. Municipalities are best able to determine local needs.

The Cultural and Recreational Facilities Grant Program is currently in the fourth year of its five year term. The Commission considered two options in regard to this program:

- Let the program continue to its scheduled expiry date, but do not extend or renew it; or
- Allow the unused allocations to be paid out unconditionally, and the program not be renewed.

The major argument in favour of allowing the program to continue to its scheduled expiry date is that changing the rules of the program part way through its term would cause confusion among municipal officials and would create an unfair advantage for those municipalities which have not yet used their entire allocation. Municipalities which felt obliged to use their allocation for cultural and recreational facilities when other projects were of a higher local priority, would be regarded as relatively worse off compared to the municipalities which could, under the second option, spend their allocation on any capital project and not just on cultural and recreational facilities.

The major arguments in favour of the second option of paying out the unused allocation on an unconditional basis are the advantages of unconditional funding and the funding which would be available for other types of capital projects. Making the balance of the funds available on an unconditional basis would represent a major commitment to unconditional funding.

On balance, the Commission recommends that the Cultural and Recreational Facilities Grant Program be continued to its scheduled expiry date, but that it should not be extended or renewed.

D. New Provincial Capital Fund

The Commission recommends the creation of a new unconditional capital grant program to replace the Provincial Capital Fund which expires March 31, 1987.

The proposed new program would have the following features:

- **Its initial level should be no less than $30 per capita per year.**

  This is the equivalent of the current Provincial Capital Fund of $25 per capita, plus the Cultural and Recreational Facilities Grant Program of $5 per capita. Although the Commission has recommended that the Cultural and Recreational Facilities Grant Program should continue until its scheduled expiry (March 31, 1988), the Commission believes that the equivalent of the annual per capita for these projects should be made available to municipalities on an unconditional basis.

- **The new unconditional capital grant program should be ongoing, so as to facilitate planning by municipalities.**

  The last three capital programs have been for specific time periods.[21] One of the prime objectives of these programs was the promotion of long-term capital planning. In order for a municipality to be eligible to receive grants under the terms of these unconditional programs, they were required to prepare and submit a 5 year capital plan. Although this requirement posed some difficulties for smaller municipalities when it was first introduced in 1974, it has now been widely accepted as a valuable part of fiscal planning.

  Municipal governments have found, however, that five year capital plans can be difficult to prepare without some form of commitment concerning the availability of funding beyond the fixed term of the provincial capital grant programs. An ongoing capital program, on the other hand, would provide municipalities with a high degree of certainty in regard to the availability of grants and they could plan accordingly.

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[21] Five years for both the Community Capital Fund and the Community Capital Fund Program, and two years for the Provincial Capital Fund.

- **The program should have a mechanism under which it can be increased from year to year.**

  Providing for increases from year to year in the total amount of funds available would help to ensure that the amount of unconditional provincial capital funding would respond to the effects of increased capital costs and increases in the overall level of urban capital expenditures.

  This could be accomplished by the development of an escalator index or by using a dedicated tax (the proceeds of which would grow over time) to finance the capital fund.

- **Municipalities should be able to receive their allocations each year, either to spend in that year on capital projects, or to place in a Capital Trust Fund for use in a subsequent year. Interest earnings on these funds should be retained in the Capital Trust Fund.**

  Depositing the annual allocations directly into Capital Trust Funds would have several advantages:

  — It would allow municipalities to earn interest on their unused allocations. Currently, municipalities feel pressured into spending their allocations as soon as possible because inflation diminishes the real value of the grants over time.By retaining the interest earnings in a capital trust fund, this type of pressure would be removed from municipalities and they would be able to spend the monies when it is advantageous for them to undertake the capital project.

  — Some municipalities are unable to take advantage of their allocations under the current programs because the monies are insufficient to meet the required costs of the facilities they require. By having an ongoing program and by being allowed to place annual allocations in a capital trust fund, municipalities would be able to accumulate the allocation for whatever number of years is required until the amount is sufficient to enable them to undertake the project. This would be of particular value to smaller municipalities.

  — A municipality could choose to accumulate its grant and proceed with a project once sufficient funds were available from local sources and the capital trust fund. Alternatively, a municipality could choose to borrow money for a project and spread the costs over a period of years. Using the grant to repay the debt would increase local flexibility in choosing whether to finance capital projects by accumulating funds or to borrow and spread the costs over a period of years.

The Commission notes that the approval of the Local Government Board is currently required before monies in a capital trust fund can be withdrawn for use on a capital project.

Making annual grant payments to municipalities would serve to strengthen local autonomy, by giving municipalities more control over the financing arrangements for their capital projects. Additional flexibility or discretion regarding the use of these funds for debt repayment or choice of capital projects would depend on the extent to which transactions of the capital trust fund would be subject to Local Government Board regulation. Currently, the L.G.B. approves the creation and dissolution of and any addition to or withdrawal from trust funds. The intent is not to substitute one form of provincial approval for another, nor to impose more restrictions on the use of funds.The Commission believes that the capital trust fund concept has worked well for urban municipalities and the Commission would like to build upon this success and support at the local level. Depositing provincial grants directly into the trust funds and retaining the interest earnings on such funds would change the way trust funds are handled and would likely involve some complementary changes in provincial legislation and/or L.G.B. procedures.

The Commission also recommends that the Department of Urban Affairs closely monitor the amounts in the respective capital trust funds and the uses to which they are put, not for the purpose of exercising controls of any kind, but for the purpose of ongoing evaluation of capital needs and how they are being met.

E. Equalization v.s. Per Capita

The Commission has recommended a new unconditional grant which amounts to an initial amount of $30 per capita per year. The question remains as to whether the aggregate amount should be distributed among individual urban municipalities on the basis of a standard amount per capita, on the basis of an equalization formula, or on the basis of a combination of per capita and equalization.

Those who favour a per capita distribution use the following arguments:

- The per capita concept is relatively simple and easily understood by local officials.
- There is a high degree of certainty in regard to the amount of capital grants which are received under a per capita distribution. This facilitates capital planning.
- There is a perceived equity in the program.There are no concerns about particular municipalities getting either more or less than their share. In particular, smaller municipalities have no concerns about the largest municipalities receiving a larger share by virtue of their presumed greater ability to lobby the provincial government.
- Some types of capital expenditures do vary from municipality to municipality in rough proportion to their populations. A per capita allocation reflects these components of capital needs.

The essential argument made by those who favour an equalization approach to distributing capital grants is that per capita grants fail to give recognition to the substantial variation in the fiscal capacity of different municipalities. They argue that because of these differences in fiscal capacity, a per capita grant means that the less wealthy municipalities must levy more in mills to finance the local share of the costs of projects than their more wealthy counterparts.

The Commission examined the implications of a per capita and an equalization approach to capital grants using two municipalities of similar populations, but quite different local tax bases - Kindersley and Meadow Lake.

It was assumed that each municipality decided to undertake a project costing $600,000. It was also assumed that each municipality would devote 2 years of its annual capital grant allocation to the project and that all of the remaining portion of the project would be financed by capital debt. It was further assumed that each municipality would issue 10 year debentures with an interest rate at 10% per annum.

The Commission considered the implications of having only per capita assistance for the capital projects in the 2 municipalities. Each municipality would receive the same amount of capital grant on a per capita basis, meaning that they would receive roughly the same capital grant in terms of total dollars. Each municipality would have very close to the same local cost to amortize through the debenture issue. To meet the annual debenture payments, however, would cost Kindersley the equivalent of 4.7 mills, while it would cost Meadow Lake the equivalent of 7.0 mills. (See Option 1 in Table IV-2). This situation would be contrary to the principle of equalization. The principle of equalization would suggest that provincial financing should be arranged such that the local share of the capital cost of the facility amounts to the same number of mills for both municipalities.

The foregoing might suggest to some that the amount of capital grant itself should vary according to the wealth of the municipality. Option 2 in Table IV-2 also outlines the impact based on the assumption that in an effort to equalize the ability of the 2 municipalities to finance their capital project, the capital grant should be different for the 2 municipalities. In this case, it is assumed that the capital grants would be $22 per capita for Kindersley and $40 per capita for Meadow Lake. Under this approach, the local shares of the capital costs would be different in dollar terms, but almost identical in terms of an equivalent number of mills. This would be in keeping with the equalization principle.

While there is some merit to having an equalized capital grant, the Commission recommends that a different approach be taken to equalizing the overall ability of urban municipalities of similar size to provide capital facilities at comparable local tax rates. The two key components to this approach are:

- Municipalities would continue to receive equal amounts of capital grants on a per capita basis.
- Standard amounts for capital debt retirement, capital expenditures from current revenue, and transfers to capital reserves (for subsequent capital expenditures) would be included as recognized expenditures in the foundation grant calculation. These amounts would be intended to reflect the average local shares of capital projects on an ongoing annual basis.

Under the proposed approach, the capital grants would be identical for both municipalities on a per capita basis, and the local share would be equal in dollar terms. However, because the average local share of ongoing capital expenditures is recognized in the foundation formula, the burden in mills to meet the local share of capital costs is automatically made equal for communities of similar size.

The Commission recommends the foregoing approach for the following main reasons:

- The practice of paying unconditional capital grants on a per capita basis is widely accepted among urban municipalities.
- The principle of equalization in the financing of capital projects is achieved through the combined effects of the capital grant program and the foundation grant program.

The foregoing proposal will only operate effectively if the foundation formula is fully implemented and full equalization is achieved. This underscores the importance of the recommendations concerning the foundation grant formula and the amount of monies in the urban revenue sharing pool described in Part III, Chapter Three.

In short, the Commission recommends that unconditional capital grants be paid on a per capita basis, and that equalization of capital financing be achieved by recognizing standard amounts for capital debt retirement, capital expenditures from current revenues, and transfers to capital reserves in the foundation grant formula.

F. Grants for Water and Sewer Projects

Grants are available under the Municipal Water Assistance Program to towns and villages undertaking water or sewer projects. This program is now administered by the Saskatchewan Water Corporation.

The Commission provides some commentary on the program because the Commission's conclusions in regard to user charges points to some possible changes in the way in which provincial assistance is provided for these projects.

The Commission believes that it is appropriate for user charges to be set at levels which will cover both operating costs and amortized capital costs for sewer and water utilities. The Commission also believes that there is a more efficient means of allocating grants to municipalities under the Municipal Water Assistance Program (M.W.A.P.) and the Water Pollution Control Assistance Program (W.P.C.A.P.).

In the view of the Commission, a municipality should be eligible for a capital grant under the M.W.A.P. or W.P.C.A.P. only if the capital and operating costs cannot be covered by a reasonable user charge.M.W.A.P. grants should be provided only in those situations where the capital cost in the absence of grants would result in an excessive user charge. The capital grant program should be used to reduce the net local capital cost to the level where a reasonable user charge is able to finance its amortized cost. In some municipalities, no grant would be required. In other municipalities, a grant covering a high percentage of the capital cost may be required.

For the purpose of administering the grant program under the approach recommended by the Commission, schedules would need to be developed to show the level of user fee which would have to be reached before capital grants would be provided for a project.Different schedules for different qualities and types of services would also be required.

The objectives of this approach to grants for water and sewer projects are to:

TABLE IV-2

ANALYSIS OF ALTERNATIVE APPROACHES TO DISTRIBUTION OF CAPITAL GRANTS

	Kindersley	Meadow Lake
Population	3,969	3,857
Assessment	$12,030,000	$8,331,000
Assessment Per Capita	$ 3,031	$ 2,160
Cost of Capital Project	$ 600,000	$ 600,000
Option 1: Current Approach (Straight Per Capita)		
Grant: ($30/year x 2 years x population)	$ 238,140	$ 231,420
Net Local Cost	$ 361,860	$ 368,580
Net Local Amortized Cost Per Year (Debenture Principal and Interest)	$ 56,928	$ 57,985
Yearly Amortized Cost in Mills	4.7 mills	7.0 mills
Option 2: Equalization ($22 for Kindersley, $40 for Meadow Lake)		
Grant: Kindersley - ($22/year x 2 years x population)	$174,636	
Meadow Lake - ($40/year x 2 years x population)		$308,560
Net Local Cost	$ 425,364	$ 291,440
Net Local Amortized Cost Per Year	$ 66,918	$ 45,849
Yearly Amortized Cost in Mills	5.6 mills	5.5 mills

- Focus provincial financial assistance on those municipalities which are already levying a relatively high user charge or which would have to levy an above-average user charge to self-finance the amortized costs of a water and/or sewer capital project.
- Ensure that all urban municipalities would be eligible for capital grant assistance on a similar basis, regardless of their legal status as a city, town, village, or resort village.
- Ensure that water and sewer projects would be financed on the concept that water and sewer utilities should be self-financing.
- Improve the equity in water and sewer rates charged to users among municipalities.

This proposal would provide increased capital grants to municipalities which face above-average costs of providing water and sewer service. Municipalities with relatively low user charges and which can raise user charges to finance the amortized cost of their capital project and still charge less than the average municipality would receive little or no provincial financial assistance.

In deciding the eligibility of a municipality for capital grants, all operating expenses including debt repayments related to the water and sewer utility could be converted to a per capita cost. A conditional provincial capital grant could be paid to those municipalities which have approved projects which would raise the municipality's per capita cost above a standard or average cost. These averages or standard costs could be developed for comparably sized municipalities or for the province as a whole.

In order to improve the financial accountability for utilities and to develop the necessary financial information bases for the proposed schedule of costs, the Commission recommends that improvements be made to the financial accounting and reporting systems for utilities.

In short, the Commission recommends that the Municipal Water Assistance and Water Pollution Control Programs be restructured so that their objective would be to provide assistance to municipalities at levels which will enable the communities to construct and operate their utilities on a self-financing basis and to finance the net local cost at reasonable levels of user charges.

G. Other Issues

In its review of capital financing mechanisms, the Commission examined proposals for lowering the interest cost of municipal debentures, providing assistance to reduce the amount of outstanding debenture debt, tax exempt municipal debentures, and the role of the Saskatchewan Water Corporation. These proposals are discussed below:

1) Reduced Interest Rates for Municipal Borrowings

Under this proposal, the provincial government would borrow on the open market and, in turn, extend loans to municipalities at rates lower than those which prevail in the market place. For example, a municipality might borrow from the provincial government at an 8% interest rate rather than 12%, if the latter were the prevailing rate in the market. The provincial government would pay the difference in cost between the interest rate charged to the municipalities and the rate at which the provincial government was able to borrow in the market place.

Providing low-cost loans or debentures for municipal capital projects would reduce the total cost of capital projects financed in whole or in part through long-term debt. The proposal also would encourage municipalities to borrow money for capital projects, rather than to use current local revenues.

The Commission recommends against this approach to assisting municipalities largely because it would tend to distort the priorities of municipalities, and it would tend to distort the allocation of investment funds in the market place.

2) Municipal Debt Reduction

In 1979, the Province of Alberta spent over $1 billion in reducing the level of municipal capital debt. The question is whether or not a similar approach should be taken in Saskatchewan.

The Commission believes that this would be an undesirable measure. One reason is that it would discriminate in favour of municipalities which have incurred large amounts of capital indebtedness and against those which have minimal capital borrowing. Another reason is that it would reduce overall municipal accountability for capital financing decisions.

The Commission also notes that the level of capital debt among Saskatchewan urban municipalities is very low. The need for a municipal debt reduction program is not apparent.

3) Tax Exempt Municipal Debentures

Tax exempt municipal debentures would permit holders of municipal debentures to receive the annual interest payment without having to include the income in determining their income tax liabilities. From the municipalities' perspective, tax exempt debentures would allow them to offer a lower rate of interest on the debentures and thereby lower the cost of borrowing money because of the tax saving to purchasers.

Because of the lower-than-market interest rates charged on municipal debentures, this type of program would distort the allocation of capital monies among competing users in society. Some lenders would be encouraged to buy municipal debentures instead of corporate bonds, stocks, or other forms of investment.The benefit to potential purchasers of tax exempt debentures would be more for individuals with higher incomes than for individuals with lower incomes because of the differences in their marginal tax rates. Tax exempt municipal debentures would tend to encourage municipalities to borrow more money because of the lower-than-market interest rates payable on these funds.

Under current tax sharing arrangements, a decision on this matter would rest with the federal government, not the provincial government.

The Commission would not favour this type of program because of the distortions in the market place which would result from it.

4) Role of the Saskatchewan Water Corporation

The current role of the Saskatchewan Water Corporation in regard to urban municipalities is to provide planning, technical and financial assistance to help them provide an adequate supply of safe water, and appropriate sewage treatment.

Potential roles for the Corporation are outlined below:

i) To provide all water and sewer services throughout the province, much like Saskatchewan Power provides electric light and power services.

This would allow for greater standardization of water supply, water treatment and sewage treatment throughout Saskatchewan. A provincial water and sewer utility could charge a standard amount for water so that all residents would pay the same amount per cubic meter of water consumed.

ii) To supply water to all urban municipalities, but leave municipalities with the responsibility of water distribution within the community.

This would allow for greater standardization of water supply, water treatment, and water charges.

The Commission does not envisage roles as broad as the foregoing for the Corporation, largely because it would entail the taking over of roles which, in most instances, are or can be capably managed by the individual municipalities. The objective of achieving self-financing utilities without excessively high local user charges can be achieved through either municipal or provincial ownership of all or part of water and sewer utilities.

The Commission envisages a three-fold role for the Corporation in regard to municipal water and sewer utilities:

- The provision of technical advice and expertise to municipalities.
- The exercising of appropriate controls where water must be managed on a regional basis.
- The provision of financial assistance to municipalities to enable them to have reasonable water and sewer utilities at reasonable local user charges.

4. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

- **The Commission has concluded that urban municipalities will require capital expenditures of an average of approximately $167 million per year over the next 5 years in order to meet their requirements.** This represents an increase of 12% over the average level of the past 5 years. The lag in the "take-up" of provincial grants and the low levels of capital debt lead to the conclusion that there is no major backlog of capital requirements in Saskatchewan.

- **Urban municipalities can make more extensive use of capital loans and debentures in financing their capital expenditures.**

  The level of capital debt is very low in Saskatchewan relative to other provinces. Saskatchewan municipalities can make more extensive use of capital loans and debentures in spreading the cost of capital projects over their useful lifetime without putting an undue burden on future taxpayers.

- **The Commission has concluded that capital loans and debentures should be used to finance a greater proportion of the capital cost of sewer and water utilities, and that user charges should be set at levels which will cover operating costs as well as the amortized cost of capital works, including the repayment of the capital loans and debentures.**

  The Commission believes that it is appropriate for user charges to be used in the financing of utilities, particularly sewer and water, so that these utilities are self-financing.

- **The Commission recommends that Municipal Water Assistance and Water Pollution Control Grants should be restructured to reflect the general objective of financing water and sewer utilities through reasonable user charges.** Grants should be focused on those municipalities which require capital grants to keep their utility rates within reason and without the need for a general municipal subsidy. Municipalities which can meet their capital costs with reasonable user charges do not require and should not receive M.W.A.P. grants.

- **Both conditional and unconditional grants are required to meet the needs of urban**

municipalities. Unconditional grants are appropriate for meeting general capital requirements that are common among all municipalities. They allow municipalities to set their own priorities and it results in a more efficient use of monies.

On the other hand, conditional grants are required to meet the particular needs arising from relatively unique situations.

The Commission noted the recent decline in the overall level of provincial capital grants to urban municipalities.

- **The Commission recommends that the Cultural and Recreational Facilities Grant Program continue until its scheduled expiry date, but that the program should not be extended or renewed.**

- **The Commission recommends the establishment of a new ongoing unconditional capital grant to replace the Provincial Capital Fund and the Cultural and Recreational Facilities Grant Program. The initial level of the fund should be no less than $30 per capita per year.**

- **The Commission recommends that the new provincial capital program be ongoing (no specified termination date) and that a mechanism be established to increase the amounts over time.**

- **The Commission recommends that municipalities be paid their full allocation under the new unconditional provincial capital program each year, either to spend on capital that year, or to be placed in a Capital Trust Fund for subsequent capital purposes or to retire capital debt incurred in respect of those projects.**

- **Interest earnings on capital grant allocations placed in Capital Trust Funds should be retained in the Capital Trust Fund.**

By being able to place their allocations in a Capital Trust Fund where they will earn interest, municipalities which use their allocations later than other municipalities will not see their allocation suffer a loss in purchasing power. It will also be of assistance to municipalities which need to accumulate several years of allocations before they have sufficient monies with which to finance their project(s), or which choose to borrow funds for their project(s).

- **The Commission recommends that the unconditional capital grant be paid on a per capita basis and that equalization of capital financing be achieved by recognizing standard amounts for capital debt retirement, transfers from the operating fund for capital expenditures, and transfers to capital reserves in the urban revenue sharing foundation grant formula.**

This will achieve the principle of equalization through the combined effects of the capital grant program, and the foundation formula, while retaining the widely accepted per capita grant approach.

CHAPTER THREE

RURAL MUNICIPAL CAPITAL

1. OVERVIEW OF EXPENDITURES AND REVENUES

Capital expenditures by rural municipalities in 1985 amounted to an estimated $16.9 million. Over the 1971 to 1985 period, rural capital expenditures increased by a compound average annual rate of 9.5%.[1]

Over the 1971 to 1984 period, machinery and equipment accounted for an average of 84.5% of total capital expenditures, buildings 8.9%, engineering structures 5.0%, and land 1.7%.[2] Most of the machinery and equipment was for road maintenance and construction. See Chart IV-5.

The sources of financing rural municipal capital expenditures over the 1971 to 1984 period are outlined in Appendix IV-23.The percentage breakdown in the revenue sources is shown in Appendix IV-24. See Chart IV-6 for a pictorial description.

LONG-TERM DEBT

Rural municipalities have issued very little debenture debt to finance capital projects. The total outstanding rural debenture debt as at December 31, 1984 was only $144,000, or less than 60 cents per rural resident.[3] In fact, since 1980, there has been no debenture debt issued by rural municipalities.

The long-term debt incurred by rural municipalities has been in the form of two to four year loans from

CHART IV-5

PERCENTAGE DISTRIBUTION OF RURAL CAPITAL EXPENDITURES BY OBJECT

1971 TO 1984

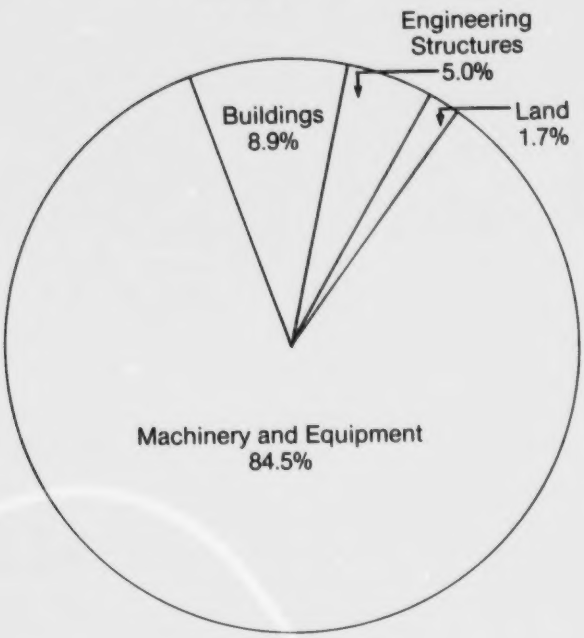
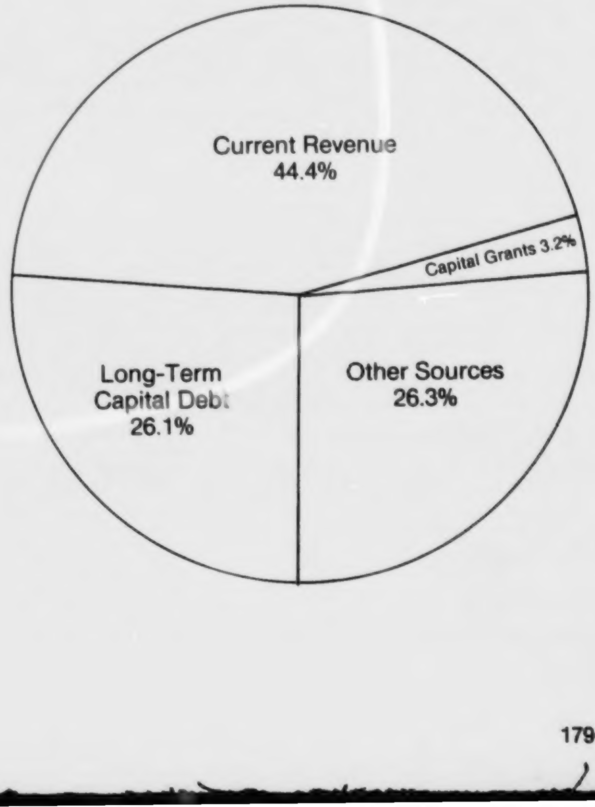


CHART IV-6

SOURCES OF RURAL CAPITAL FINANCING

1971 TO 1984



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[1] See Appendix IV-21.
[2] See Appendix IV-22.
[3] See Appendix IV-9.

financial institutions and internal borrowing from capital trust funds. Loans avoid the cost of issuing debentures, while loans from capital trust funds are also interest free. To the extent the rural municipality has funds available in a capital trust fund, this source of funds is an attractive alternative to borrowing from outside sources.

Over the last 5 years, long-term debt accounted for an average of 31.1% of rural capital financing. This is up from the average of 26.7% in the 1975 to 1979 period, and up by a substantial amount from the average of 6.0% for the 1971 to 1974 period.

CAPITAL GRANTS

Capital grants represented approximately 2.9% of total rural capital financing over the last 5 years compared to 2.9% in the 1975 to 1979 period, and 4.8% in the 1971 to 1974 period.

Rural municipalities are eligible to receive grants under the Provincial Capital Fund, the Cultural and Recreational Facilities, and Water Assistance Grant programs. In most cases, these grants are paid to the rural municipality on behalf of hamlets within their boundaries, rather than for general rural municipal projects. Rural municipalities are eligible for these grants, on behalf of hamlets, to ensure equitable treatment of hamlets versus small urban municipalities, and to avoid providing a financial incentive to change the legal status of the hamlet in order to qualify for grants.

CURRENT REVENUES

Transfers from the operating fund (mainly property taxes) to the capital fund represents a major source of rural capital financing. Approximately 47.8% of rural capital financing came from the operating fund over the last 5 years. This compares to 35.5% from this source in the 1975 to 1979 period, and 51.9% in the 1971 to 1974 period.

OTHER SOURCES

Proceeds from the sale of property or other capital assets, donations, interest earnings of the capital fund and funds available from previous years accounted for approximately 18.1% of rural capital finances over the last 5 years. This compares with 35.0% in the 1975 to 1979 period, and 37.3% in the 1971 to 1974 period. Rural municipalities have not withdrawn sizeable amounts from reserves or from accumulated surpluses to finance capital projects. In fact, the capital fund surplus or equity has increased from $59.5 million in 1975 to $127.7 million in 1984.

2. ISSUES

Capital grants to rural municipalities amounted to an average of $468,403 per year over the 1980 to 1984 period, or approximately $1.95 per rural resident. Over the same period, rural capital grants amounted to 2.9% of total rural municipal capital expenditures.

Rural municipal officials have expressed concern about the lack of an unconditional capital program for general rural municipal purposes similar to the Provincial Capital Fund. Most of the capital grant received by rural municipalities from existing grant programs are for projects in hamlets. They believe that they are at a financial disadvantage relative to urban municipalities. For example, in the case of a joint urban and rural municipal project, the urban municipality can receive provincial capital grants to offset part of its share of the project costs. However, the rural municipality would generally be ineligible for assistance and it would have to meet its share of the project costs without any direct provincial capital grants.

On the other hand, some would suggest that an unconditional capital grant program is unnecessary because the predominant activity of rural municipalities is road construction and maintenance which is already financed under rural revenue sharing. They would also suggest that if additional provincial assistance is required for road construction and maintenance, then the appropriate funding mechanism is rural revenue sharing, rather than to establish a new grant program. Some would also suggest that since the overwhelming proportion of rural capital expenditure is for machinery and equipment (presumably road-related machinery and equipment) any unconditional provincial capital grant program would likely be spent on similar items and, thus, encouraging municipalities, to develop or enlarge their own road construction and maintenance crews to the detriment of private firms.

3. CONCLUSIONS AND RECOMMENDATIONS

The Commission recommends the establishment of an ongoing unconditional capital grant program for rural municipalities.

The Commission believes that rural municipalities should receive capital grants to assist in the construction of municipal buildings, purchasing equipment, and the construction of cultural and recreational and other capital projects, either on their own or in conjunction with urban municipalities in their area.

The Commission believes an ongoing, unconditional rural capital grant is required for the following reasons:

- It would provide for greater equity between rural and urban municipalities for provincial financial assistance for general capital projects.

- It would reduce the amount of local dollars needed for rural capital projects and thereby ease the pressure on rural municipal property taxes.
- Unconditional funding enhances local autonomy and recognizes that priorities among competing projects are best decided at the local level.

The Commission recommends that the unconditional rural capital grant program be set at an initial level of no less than $15 per capita per year.

The main objective of the unconditional rural capital grant program is to provide assistance for general rural municipal projects such as community halls, machine shops, etc., for which limited or no funding is currently available.

The Commission notes that unconditional urban capital grants are used for a wide variety of capital purposes, including a significant proportion spent on transportation. Except for Urban Assistance grants for highway connectors, urban municipalities do not receive any other grants for transportation expenditures. On the other hand, rural transportation expenditures are financed to a significant degree under rural revenue sharing.

In the view of the Commission, an initial unconditional capital grant of no less than $15 per capita per year would be appropriate in addressing general rural capital needs.

The Commission proposes that the program be operated in a way which is similar to the proposed new unconditional capital program recommended earlier for urban municipalities:

- It would be an ongoing program.
- The same mechanism should be used to increase the amount of funds over time.
- The monies would be paid each year to the respective municipalities, either for capital expenditures to be made in that year, or for placement in a capital trust fund for use at a time to be decided by the municipality. Interest earnings should be retained in the capital trust fund for future capital purposes.
- The monies would be paid unconditionally. The only basic condition is that the monies be spent for capital purposes according to the current definitions of capital, or on road or bridge construction. The funds also could be used to retire capital debt incurred on these projects.

The Commission recommends that rural municipalities be permitted to use the capital grants for road or bridge construction if they so wish.

The Commission believes that rural municipalities should have a maximum of flexibility in the use to which they put the monies, and an unconditional grant would accomplish this. The proposed arrangements would enable municipalities to purchase road construction equipment, supplement current funding under rural revenue sharing for road construction, purchase maintenance machinery and equipment, or to build offices and shops.

It is very important that municipalities be permitted to spend the monies on road or bridge construction if they so choose.If municipalities were unable to use the grants for road or bridge construction, but were able to use them for the purchase of machinery and equipment that could be used in road construction, municipalities would be given a strong financial inducement to undertake their own road or bridge construction and avoid the tendering of such projects to the private sector. The Commission believes that it should be up to each municipality to decide how it wishes to construct its roads or bridges, and grant formula should neither favour nor discourage contracting versus use of the municipalities' own forces.

The Commission believes that additional analysis and consultations are required concerning the distribution of the proposed unconditional rural capital grant.

The monies could be distributed to municipalities on a straight per capita basis, or on the basis of a certain percentage of the standard annual expenditure requirements used in the equalization formula.

As with the proposed urban capital program, it may be desirable to have components in recognized expenditures in the equalization formula to account for current revenue contributions to capital, thus having an equalizing effect on the overall distribution of capital funds.

CHAPTER FOUR

SCHOOL DIVISION CAPITAL

1. OVERVIEW OF EXPENDITURES AND REVENUES

A. Expenditures

School capital expenditures are estimated to total $57.5 million in 1985. In the period from 1975 to 1985, school capital expenditures have increased at a compound average annual rate of 10.9%.[1] This is identical to the average annual rate of increase in operating expenditures of school divisions over the same period.

An average of about 96% of school capital expenditures are for new schools, replacement of existing schools, additions to schools, major renovations and repairs, and the land and instructional equipment and furniture associated with those projects. The other 4% consists of school buses, other buildings (such as offices, storage facilities shops, bus garages) and miscellaneous equipment.[2]

School divisions are required to obtain the approval of the Department of Education before undertaking capital projects. In 1985, the Department of Education approved a total of 143 capital projects of various magnitudes, totalling $54.4 million in approved expenditures.[3] The approved projects consisted of 6 new schools ($11.0 million), 42 major renovations or additions ($35.9 million), 37 roof repair projects ($5.8 million) and 58 miscellaneous projects ($1.7 million).[4]

The Department of Education forecasts that school capital requirements will remain at approximately $55 million per year over the next 5 years.

B. Sources of Financing

Projects approved by the Department must also be financed in accordance with a structure specified by the Department.

There are three main components to the funding structure for capital projects:

- capital grants;
- downpayments by the school division;
- capital debt.

Capital Grants

Capital grants range between 15% and 30% of the combined cost of construction and architectural fees.The most wealthy school divisions receive the minimum of 15%, while the least wealthy divisions receive up to 30%.

Wealth is defined in terms of the fiscal capacity of the school division, or in other words, the local revenue base available to the school division relative to the ongoing expenditure the school division is required to make to carry out its mandate. The foundation formula for operating grants provides a measure of the degree of wealth of the school division and is used as the basis for determining the capital grant percentage. The lower the foundation grant as a percentage of the operating expenditures recognized in the foundation formula, the greater the wealth of the school division. The higher the foundation grant as a percentage of recognized operating expenditures, the lesser the wealth of the school division.

The formula for determining the capital grant percentage for a school division is:

$$\text{Capital Grant Percentage} = \frac{\text{Foundation Grant} \qquad \times .45}{\text{Total Recognized Foundation Expenditure}}$$

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[1] See Appendix IV-1.

[2] See Appendix IV-25 for a breakdown of school capital expenditures by category.

[3] Although these expenditures were approved in 1985, depending on when the projects were actually begun and how quickly the construction proceeds, some of the expenditures will have been incurred in 1985, while other portions will be incurred in a subsequent year or years. Similarly, in 1985, capital expenditure includes expenditures in regard to projects approved in an earlier year.

[4] See Appendix IV-26.

The .45 is an arbitrary figure used to lower the percentages to levels compatible with the amount of capital grants available, on one hand, and the required level of school capital expenditures, on the other hand. A minimum of 15% applies, regardless of the amount derived from the foregoing formula.

Downpayment

The school division is also required to make a downpayment roughly equivalent to the annual repayment of any capital indebtedness incurred, in the year in which the project is undertaken. This amount is approximated by taking 20% of the total approved cost of the project, minus the capital grant and other miscellaneous revenue such as federal sales tax rebate.[5] Provision for the downpayment is one of the conditions which must be met before the Local Government Board will authorize debentures or capital loans. In order to ensure that the downpayment is not overly burdensome to a school division, for each capital project the Department of Education reimburses the school division for that portion of the downpayment which is in excess of the equivalent of five mills on the local tax base of the school division. In effect, the local taxpayers of a school division have to incur a maximum of five mills as a downpayment for a project. For most projects, the total downpayment amounts to less than five mills (based on the old assessment base).

Debentures and Capital Loans

Subject to the approval of the Local Government Board, debentures or capital loans are used to finance the residual amount after taking into account the capital grant, downpayment and miscellaneous revenues. The interest and retirement of the principal are fully reimbursed by the Department of Education.[6] School divisions sometimes use their own surpluses or reserves in place of debentures or capital loans, particularly for smaller projects. In such instances, the Department treats the replenishment of those surpluses and reserves, together with interest, in the same way in which debentures or capital loans are treated, so that the school division is not disadvantaged by using its own sources of financing.

Debentures are normally of a 10 year term, while capital loans are for a maximum of 4 years.

For capital expenditures in respect of which no capital grant is payable, school divisions use a variety of revenue sources, including contributions from current revenue, surpluses or reserves, and capital borrowing. Any long-term capital borrowing must be approved by the Local Government Board and is subject to the downpayment policy as with other types of projects.The Department provides no reimbursement for downpayments, nor for capital debt retirement in regard to projects which are not eligible for capital grants.

Capital expenditures not eligible for capital grant support, include business offices, maintenance and repair shops or garages, school buses and furniture and equipment not associated with a new school or major addition or renovation.

C. Sources of Revenue

In 1985, capital grants accounted for an average of approximately 17% of the source of revenue for school capital projects, while current revenue contributions (mainly for downpayments in regard to capital borrowing) accounted for approximately 15%.[7] Debentures accounted for about 45%, while capital loans and reserves accounted for another 13% of total revenues.

In 1975, capital grants averaged approximately 30% of the approved cost of capital projects, current revenue contributions amounted to about 9%, debentures accounted for about 40%, and capital loans and reserves accounted for about 5%.[8] The subsequent reduction in the proportion of costs covered by grants over the 1975 to 1985 period is the result of conscious decisions to lower the average capital grant percentages in order to permit the capital grant budget of the Department of Education to be spread among a greater number of projects, and to permit more projects to proceed than would otherwise be possible. The effect has been to increase the amount of financing required from debentures, loans and reserves. Because of the fact that the Department reimburses school divisions for the cost of retiring debenture debt or capital loans and the replenishment of reserves, the Department has essentially shifted a portion of its financial support from current contributions to longer term contributions.

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[5] Other miscellaneous revenues can include such items as insurance revenues, sale of assets and interest earned on temporary investment of the proceeds of debentures.

[6] From 1970 to 1984, capital debt retirement was recognized as an expenditure under the foundation grant formula. In 1985, this practice was discontinued and a separate grant is paid to reimburse the school division for such costs.

[7] See Appendix IV-27.

[8] See Appendix IV-28.

Outstanding debenture debt for school divisions totalled $185.9 million as at December 31, 1984. This compares with $64.2 million as at December 31, 1974.[9]

2. ISSUES/OBSERVATIONS

A. Approval Process/Criteria

The Education Act requires that the Minister of Education approve all capital projects and their financing prior to their being undertaken by a school division.

Boards of education submit requests for approval of capital projects in May and June, and in the months to follow, officials of the Department of Education undertake inspections of facilities or consult with officials of school divisions as required in order to evaluate the requests. School divisions are advised regarding the approval or non-approval of their projects after the provincial budget is presented to the Legislative Assembly, usually in March, of the following year. The Department of Education at that time issues approvals enabling the school divisions to engage architects, prepare plans and arrange the financing of the project.

Once the financing has been arranged, and the detailed plans and specifications have been approved by the Department, the projects are tendered. The awarding of contracts must also be approved by the Department. For major projects, school divisions are normally in a position to award contracts in the Fall of the year in which the approval was first issued by the Department. In other words, approximately 18 months normally elapse from the time when a request is submitted to the Department of Education and when work is able to commence.

In arriving at a decision about which projects to approve, the Department of Education ranks projects according to a set of criteria. For example, projects which are urgently required in order to protect the health and safety of students are given the highest priority ranking. Projects which are required in order to accommodate increased enrolment where transportation to other facilities is not a feasible option receive the next highest priority ranking, and so on.[10] In total, there are eight different levels of priority.

The number of projects approved is dependent on the amount of capital grants approved in the budget of the Department of Education. Capital grants are allocated first to those projects which are in the highest priority category, then the balance of the funds are allocated to the second priority category and so, until the available funds are entirely allocated. A project is not approved unless capital grants are available for it.

Several concerns have been expressed in regard to the current approval processes:

- Length of Time for Approvals

  There are concerns among school divisions regarding the length of time it takes for projects to be approved. In their view, being required to wait from May or June when requests are submitted, until March of the following year, is unnecessarily long.

- Timing of Issuance of Approvals

  Concerns have been expressed about the announcement of approvals in March, because it is late Fall or Winter before anything but relatively small projects can go to tender.They point out that it normally takes several months to arrange financing, prepare preliminary drawings, prepare final drawings and specifications, and obtain the necessary approval of plans from the Department of Education, Department of Health, and the Fire Commissioner. They believe that the timing of approvals forces an unnecessary amount of construction during the winter months, when it is more costly to build (particularly for the initial stages of construction). It is suggested that Winter or early Spring tendering, which would entail the commencement of projects in the Summer or early Fall would be more economical.

- Adherence to Criteria

  Criticism has been expressed about the perceived consistency with which the published criteria are applied. For example, it is suggested that if an individual school division happens to have two projects that are of high priority, then both those projects should be approved instead of superimposing a rationing device such as "one major project per division" onto the established criteria. There is concern that there has been an emerging tendency to place less reliance on the published criteria and more reliance on other factors which are of less relevance to the needs of students.

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[9] See Appendix IV-9.

[10] See Appendix IV-29.

- Long-Term Planning

  Concern has been expressed that the current approval processes discourage long-term planning. It is desirable for school divisions to develop long-term plans for capital expenditures to assist in their own budgeting and management, but also to assist the officials of the Department of Education in evaluating requested projects. However, it has been pointed out that school divisions do not have the sole authority to make decisions on capital and that in the final analysis, all is dependent upon the judgment of provincial officials and the amount of capital grant available. It has been suggested that unless the Department of Education itself is prepared to make long-term commitments on the level of funding it will provide and the types of projects which will be approved, long-term plans of school divisions tend to be academic exercises to which school divisions are not encouraged to devote as much seriousness as might otherwise be the case.

- Timing of Debenture Issues

  It is a policy of the Local Government Board that all debentures be issued in connection with a capital project be sold before a contract is awarded. The L.G.B. arrived at this policy to avoid repetition of problems which some local governments had encountered in the 1970's when contracts had been awarded prior to marketing debentures. Certain local governments were unable to market their debentures or had great difficulty in doing so, thereby placing the local authorities in a position where they were in danger of defaulting on contractual commitments.

  Some school divisions believe that the current policy injects unnecessary rigidity into the financing of school projects, causing costs of borrowing to be higher than necessary. They argue that if they had more flexibility in the timing of marketing the debentures, they would be in a better position to select opportunities in the market place to obtain more advantageous interest rates. They indicate that by being required to sell the debentures prior to awarding contracts, they are often forced to sell the securities at a time when the interest rates are not advantageous, and the cost of borrowing (and hence the overall cost of the project) is correspondingly higher.

B. Level of School Capital Debt

Outstanding debenture debt of school divisions totalled $185.9 million as of December 31, 1984.[11] This represents a compound annual increase of 9.6% since 1973, compared with 2.6% for all urban and rural municipalities. In 1984, school divisions accounted for 51.6% of all outstanding debenture debt of local governments, compared to 32.7% in 1973.[12]

Questions arise as to whether debt has been used too extensively in the financing of school capital projects and whether there is an excessive or burdensome amount of school capital debt.

C. Conditionality of Capital Funding

The question arises as to whether provincial capital funding for school divisions should be made on an unconditional basis, similar to the Provincial Capital Fund for urban municipalities, or whether conditional funding should continue.

D. Percentage of Provincial Assistance and Incentives

The only local financial input required of school divisions for a capital project is the downpayment which the school division must make in the year in which the borrowing takes place. Such downpayments averaged 14.9% of the total cost of projects approved by the Department of Education in 1985. The Department reimburses school divisions for those portions of their downpayments which exceed the equivalent of 5 mills per project on the local tax base of the school division.This policy had the effect of reducing the net local downpayment to an average of 11.3% for the projects approved in 1985.[13]

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[11] See Appendix IV-9.

[12] See Appendix IV-13.

All other approved costs of a capital project are borne by the provincial government mainly in the form of the capital grant or in the reimbursement for capital indebtedness.[14]

The following questions arise in regard to the relatively small local share of capital costs:

- Does the large provincial share of capital costs encourage school divisions to seek approval for projects which are not necessary or which are of low priority?
- Does the large provincial share of capital expenditures encourage school divisions to seek approval for projects which are larger or more elaborate and costly than necessary? In other words, do school divisions have sufficient financial accountability for the overall costs of capital projects? Do they have the appropriate incentive to exercise prudence and moderation in regard to their decisions on capital projects?
- Would there be merit to increasing the local share of school capital costs?
- Would it be possible to maintain the principle of equalization, while at the same time increasing the local share of school capital costs?

E. Capital Renovations and Repairs

Issues have arisen in connection with capital renovations and repairs that are considered to be capital in nature.

ROOFS

Occasionally, a roof of a school facility requires a major renovation or replacement. Roof projects costing at least the equivalent of one mill on the local tax base of the school division, or $50,000, whichever is the lesser, are considered to be capital expenditures and are eligible for assistance under the capital grant policy. School divisions are required to contribute the equivalent of 1 mill toward the financing of the project, but in other ways, the normal capital policies apply. In 1985, 37 roof repair projects costing a total of $5.8 million were approved by the Department of Education.[15]

Two major concerns have been expressed in regard to the current policy on the financing of roof repair projects:

- Under certain rather common situations, a school division has the choice of spending moderate amounts on a regular basis to maintain roofs and undertake minor repairs to extend their life, or to minimize such ongoing expenditures and wait until a major repair or replacement costing a large amount must be done. Although it may be more cost effective to spend monies on ongoing maintenance and minor repairs, rather than allow a roof to deteriorate to the point where a major repair and replacement is required, in many instances there is a financial incentive for school divisions to do the latter.

  School divisions have a financial incentive to do the latter because decisions to spend monies on regular maintenance and repair do not result in any additional funding from the provincial government. School divisions receive their operating grants on essentially an unconditional basis and decisions to spend more or less or to spend on one area as opposed to another have no impact on the amount of operating monies payable to the division. On the other hand, if the expenditure is treated as capital, provincial capital funding is made available. For the 1985 roof repair projects, financing from local school division sources amounted to about 19% of the total cost and the remainder came from the provincial government.

- There is a backlog of requests for capital roof repair projects because the budgetary allocation of the Department of Education for such projects does not match the number of projects which are required. Delays in undertaking the project can result in further deterioration of the roof or damage to other parts of the school, thereby increasing overall costs.

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[13] Appendix IV-27.

[14] The federal government rebates the federal sales tax on materials used in school construction, and this amounts to an average of 0.8% of the total cost. This could be considered as a source of revenue or it could be considered a deduction from costs.

In a few instances, the federal government also provided funding for a share of a school facility on behalf of students from Indian Reserves who would attend a facility owned by a school division.

[15] See Appendix IV-27 for an outline of the source of funding for these projects.

RENOVATIONS

Representatives of larger urban school divisions have expressed concern about a particular category of school capital projects. These projects are required in order to extend the useful lifetime of the facility. However postponement of the renovation would not, in itself, cause further deterioration of the facility, as would a leaking roof, for example. Their concern is, essentially, that very few such projects have received provincial funding approval, and that the general state of school facilities is, consequently, undergoing slow deterioration. In effect, their concern is that a backlog is being created of capital projects which will eventually have to be done.

Relatively few such projects may receive approval because the following types of projects receive higher priority, and that by the time these projects are funded, the capital grants budget of the Department of Education may be totally allocated:

- Projects urgently required because of health and safety considerations.
- Projects required to meet enrolment pressures where transportation is not a feasible option.
- Major projects required to prevent further deterioration of the structure of the facility.
- Facilities required due to school program requirements.

It was suggested that non-city divisions tend to get more of their renovation projects approved for provincial funding because their projects are often associated with the need to meet particular program requirements.

School divisions may feel inclined to proceed with the renovations without provincial assistance for the sake of maintaining the overall state of repair of their facilities. On the other hand, they are reluctant to do so because the project might receive provincial funding approval in the future, in which case they would not have to fund the project entirely from local revenues.

3. CONCLUSIONS/RECOMMENDATIONS

A. Approval Processes/Criteria

In connection with the processes and criteria used in the approval of school capital projects by the Department of Education, the Commission recommends:

- **That the Department of Education announce approval of all high priority projects in early November of the same year in which requests have been submitted by school divisions, and that approval of remaining projects be announced at the time of the Budget Speech.**

Certain categories of projects[16] have relatively little discretion attached to them and the earlier they are announced, the better. The provincial government would have the months of June to October (5 months) to undertake the required review and analysis of projects which should be included in these categories.

By announcing approval of the projects in early November, school divisions will be able to engage architects, arrange financing and proceed to tendering in the following Spring, thereby taking advantage of a more opportune time to commence construction, and keep costs lower than would be the case with approvals announced at a later date. It would also enable a number of renovation and repair projects to be completed in time for the commencement of the new school year.

The Commission recognizes that the provincial government is best able to set government-wide priorities if it is able to consider all expenditure proposals from all departments and agencies before decisions on any one component are made, and that normally all of the steps in this process are not completed until just prior to the presentation of the provincial budget to the Legislative Assembly (usually in March).Making commitments on part of the school capital grants budget in the preceding Fall would be contrary to this process. However, the Commission believes that there is relatively little choice but to proceed with the projects in the first three priority categories and that little purpose is served by waiting up to five more months before the approvals are issued.

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[16] See Appendix IV-29.

The recommended course of action is not without precedent. Fall approvals of high priority projects were issued in at least two years in the 1970's. The Commission believes that if it was successfully accomplished in earlier years, there is no reason why it cannot be done again on a regular and consistent basis.

- **That the Department of Education adhere closely to the criteria which it has developed for prioritizing projects requested by school divisions.**

Superimposing quotas (such as no more than one major project per division) on top of the long-standing published criteria, give the education community the impression that motivations, other than the needs of students, have greater importance for the provincial government. Such impressions have the effect of undermining confidence in the processes and criteria used in evaluating projects.

Prior to 1985, the Department of Education reimbursed school divisions for that portion of debenture downpayments in excess of 4 mills for the entire capital program of the division.Under this circumstance, it was to the financial advantage of school divisions to have as many projects approved in a single year as possible. Once the 4 mill threshold had been reached in regard to downpayments, there would be no additional cost to the school division to get approval for additional projects with additional downpayments because the Department of Education would reimburse the school division for any collective downpayments in excess of 4 mills.

Beginning in 1985, when the reimbursement of downpayments applied to individual projects, the incentive for school divisions to concentrate its projects in a single year was removed. With the removal of this incentive, the justification for a rationing device over and above the normal criteria would also seem to have disappeared.

- **That the Department of Education promote long-term capital planning by the issuance of a policy statement on capital projects to supplement the criteria for prioritizing projects.**

This policy statement should include a description of the present status of school facilities in the Province, the types of current and future needs, the costs of meeting those needs, and the philosophy and approach (including financing) the Department of Education intends to use in meeting those needs.

A policy statement such as this would not bind the provincial government in regard to specific budget levels for particular years but would, instead, provide a general direction within which individual school divisions could plan.

At present, school divisions are highly uncertain as to what projects will receive approval. Their efforts at long-term planning are dominated by annual decisions of the provincial government regarding the size of the capital grants budget for that particular year and uncertainty as to the rigor with which the published criteria will be applied. A policy statement would provide a greater sense of direction in regard to capital planning.

B. Level of School Capital Debt

The Commission has concluded that the level of school capital debt is not a basis of concern in the overall funding of education.

The Commission believes that there would be some cause for concern if the level of capital debt retirement had substantially increased as a percentage of the overall operating expenditures of school divisions. In other words, if greater and greater proportions of the operating funds allocated to elementary and secondary education were being consumed in the retirement of capital debt, thereby creating a financial burden and/or diverting funds from programs and services for students, there would be reason for concern and a need to examine policies governing the proportions of long-term versus current financing used in school capital projects.

An examination of the earliest year for which the Commission has data (1970) shows that debt retirement amounted to 7.6% of the total operating expenditures while by 1985, this had declined slightly to 7.5%.However, within the 15 year period, it is noted that the percentage dropped to a low of 4.6% in 1976, climbed slowly to 5.8% by 1983, then climbed rapidly to 7.5% by 1985.[17]

The relatively sharp increase from 1983 to 1985 would be cause for some concern, if it were expected that the trend would continue. However, it should be noted that capital expenditures of school divisions were unusually high in 1983 and 1984, largely as a result of the construction of 4 major collegiates in Regina and Saskatoon in those years. The sharp increases in capital debt retirement in 1984 and 1985 are largely a reflection of the commencement of the retirement of the capital debt used in the financing of those projects.

The increasing percentage of local government capital debt attributable to school divisions appears to result mainly from a decreasing utilization of capital debt by municipal governments and a reduction in the percentage of the costs of school projects covered by capital grants from the Department of Education.

C. Conditionality of Capital Funding

The Commission has concluded that it would be inappropriate to have unconditional capital funding for major school capital projects, and that conditional funding should be retained. Capital needs vary considerably among school divisions. Some divisions have very few capital needs. Other divisions, particularly those with growing enrolments, have relatively large capital requirements. In the view of the Commission, decisions on needs for capital projects need to be made on a project by project basis.Unconditional funding would simply provide some divisions with more funds than they require, while other divisions would not receive the level of funding required to meet their needs. In short, unconditional funding for school capital projects would be wasteful of limited public funds and would be much less efficient in achieving equalization in relation to the current arrangements.

D. Percentage of Provincial Assistance and Incentives

The Commission recommends that the current method of financing major capital projects be retained, including the full reimbursement of approved capital debt retirement.

The Commission believes that the high percentage of provincial funding of capital projects does provide an encouragement for school divisions to seek approval for projects which are desirable, but which may not be given a high priority by the school division board if the projects had to be financed to a greater extent from local tax sources. Provincial funding averaging close to 90% of costs removes much of the financial accountability from school divisions for capital projects. The Minister of Education is in the position of making final decisions on projects and having to accept the political accountability for those decisions.

The use of a set of criteria by the Department of Education to govern approval of projects removes much of the opportunity for proceeding with low priority projects, but the onus for "weeding out" any low priority proposals which may be submitted by boards rests with the Department. As a result, the provincial government, not school division boards, tend to bear the political pressures arising from exercising this responsibility. Thus, there tends to be misplaced political accountability in regard to the decision-making process for school capital projects.

The Commission considered an option which would place greater financial responsibility for capital projects on school divisions. The elements of this option are:

- The Department of Education would continue to provide full reimbursement for the retirement of all existing capital debt.
- The department would recognize a varying percentage of the retirement of any new capital debt incurred.
- The percentage of debt retirement would vary from school division to school division, depending on the degree of wealth or fiscal capacity of the school division.
- The percentage of debt retirement recognized in a particular year would be the foundation grant percentage for that school division in the immediately preceding year. The foundation grant percentage would be calculated as follows:

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[17] See Appendix IV-30.

$$\frac{\text{Foundation Grant}}{\text{Recognized Expenditures Under Foundation Formula}} \times 100$$

School divisions which incur higher amounts of capital debt retirement in the future would end up paying higher local tax rates (other things being equal) than school divisions which incur lower amounts of such indebtedness. By tying the amount of provincial support to the foundation grant percentage, the less wealthy divisions would not be disadvantaged relative to the more wealthy divisions.

The Commission estimates that if this option were adopted, in the long run there could be a difference in mill rate requirements of up to 12 mills between school divisions with little or no capital debt on the one hand, and school divisions with large amounts of capital debt on the other hand.[18]

The 100% provincial reimbursement of capital debt retirement provides school division debentures with a high degree of security and the debentures are able to be sold at correspondingly lower interest rates.Recognition of less than 100% of debt retirement would reduce the security of the debentures and might increase the cost of borrowing. However, it would be possible for the provincial government to formally guarantee school division debentures to maintain their current level of security and prevent an increase in the cost of borrowing.

The option would have the advantage of placing more financial accountability on school divisions with regard to decisions on capital projects. School divisions would have a greater incentive to eliminate projects which are desirable but, nevertheless, of relatively low priority compared to other items on which educational monies could be spent. The political responsibility for decisions on capital projects would tend to become more equally shared between school divisions and the Minister of Education.

Two main arguments can be made against this option:

- A school division with an expanding enrolment would end up facing a higher local input for capital projects than a school division with a stable or declining enrolment. It could be argued that it is unfair for taxpayers to face higher local taxes, simply because student enrolment is growing. It could be argued that the proposal is contrary to some elements of the principle of equalization, as embodied in the current capital funding arrangements.

- Although the current financing of capital projects is less than ideal in terms of the degree of financial accountability placed on school divisions, there is little evidence that the current financing arrangements have resulted in the construction of facilities that are contrary to government policy. Errors in judgment are made from time to time in any human endeavour, and no doubt errors have been made in regard to school projects. However, with the system of provincial priority rankings of proposed projects in operation, such errors are minimized.

On balance, the Commission believes there is merit to continuing the present system of financing major capital expenditures. The Commission doubts that the current quality of decision-making would be improved under the option identifed above.

E. Roof Repairs

The Commission believes that the financing policies of the Department of Education in regard to roof repairs should meet the following objectives:

- The present financial encouragement for school divisions to neglect ongoing maintenance and minor repairs in favour of larger capital repair projects should be either eliminated or minimized. Financial policies should have the greatest possible "neutrality" so that decisions will be based on what is the most cost effective for the public as a whole.

- Financial policies should provide for equalization. School divisions with low fiscal capacities should not be disadvantaged relative to divisions with high fiscal capacities.

- The policies should assist in removing the backlog of required projects.

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[18] See Appendix IV-31 for a more complete description of the option.

The Commission examined four options for the financing of roof repairs:

OPTION 1: VARYING PERCENTAGE OF ASSISTANCE FOR APPROVED PROJECTS[19]

- The current policies governing grants on roof repair projects and renovations would be discontinued.

- The Department of Education would provide grant support for only a percentage of the costs of capital roof repair and renovation projects.

- The percentage of costs which is given grant support should vary from school division to school division in accordance with the degree of wealth of the school division. The foundation grant percentage of the preceding year would be the percentage used.[20]

- Grant support could be any combination of capital grant and reimbursement of capital debt retirement. The local share could consist of any combination of capital debt retirement (that portion not eligible for reimbursement by the department), current revenue, or surplus.

- Grant support would apply only to that portion of the project cost which exceeds the cost threshold over which the project is considered to be capital.[21]

The foregoing option would have the following desirable features:

- It would reduce the overall amount of assistance provided for capital roof repair projects, thereby providing an incentive for ongoing maintenance.

- Each additional dollar of major roof repair cost would have a residual financial impact on the school division. For example, delays in doing maintenance or minor repair work which have the effect of increasing the cost of a capital roof repair project would result in an additional cost to the division. This, too, would encourage ongoing maintenance work.

- By tying the amount of assistance to the foundation grant percentage, there would be additional assistance for the less wealthy school divisions (at least for that portion of the project exceeding the "capital threshold"), thereby maintaining the essence of the equalization principle.

- By permitting school divisions to borrow for a part of "their share" of the project costs, a school division with a large project can spread the local cost over a period of years, thereby avoiding short-term financial hardship.

The main drawback of this option is that school divisions would still be constrained by the current capital project processes. If the capital grants budget of the Department of Education were constrained, a backlog of projects could continue, and the overall state of the school plant in the province could deteriorate.

The Commission believes that this option is worthy of serious consideration.

OPTION 2: ELIMINATION OF CAPITAL ASSISTANCE FOR ROOF REPAIRS

Under this option, the current policies governing the financing of renovations would remain unchanged, but grant support for roof repair projects would be discontinued.

This approach would provide "neutrality" in that there would be no incentive to postpone or neglect ongoing maintenance repair because the long-term financial consequences would rest with the school division.

The Commission rejected this option because, regardless of good maintenance and minor repair practices, some roofs will require major repairs or replacement, and the costs would impact unfairly on the less wealthy school divisions. Some school divisions with only one or a few schools may be simply unable to finance such a project on their own without an excessive local tax burden. In short, elimination of any assistance for roof repair would violate the principle of equalization.

OPTION 3: CAPITAL GRANT CONDITIONAL ON ADEQUACY OF MAINTENANCE

Under this option, capital assistance for roof repairs would be provided only if the school division was able to demonstrate to the satisfaction of the Department of Education that it was undertaking a regular and adequate program of ongoing maintenance and minor repairs of roofs. The current policies governing regular renovations would be continued.

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[19] See Appendix IV-32 for examples of how this policy could operate.

[20] This would be the foundation grant as a percentage of the recognized expenditure in the foundation formula.

[21] For example, to be classified as a capital project, the cost of a project may be required to exceed the lesser of $20,000 or one mill on the local tax base.

This option was not favoured because of the high degree of subjectivity which would be involved, the lack of clear-cut standards for maintenance, the substantial administration costs which could be involved, and the amount of contention that would be generated between the Department and school divisions.

OPTION 4: CONDITIONAL ROOF MAINTENANCE GRANT

Under this option, conditional grants would be made available for ongoing maintenance and minor repairs, in addition to capital assistance for major repairs.

While this option could provide appropriate incentives, the Commission did not favour the option because of the administrative costs and complexities which would be involved. The development of standards, the determination as to whether the standards were met, and the determination of expenditures eligible for grant support would be highly subjective exercises.

In short, the Commission recommends that consideration be given to providing school divisions with a varying percentage of assistance for roof repair projects in accordance with the wealth of the school division (Option 1).

F. Renovations

The Commission considered an option under which the Department of Education would:

- Finance major capital projects in the same way as is now being done, except that there would be somewhat less than full reimbursement for the capital debt retirement. The percentage of reimbursement of capital debt retirement would be tied to the wealth of the school division, so as to be consistent with the equalization principle.
- Provide an unconditional capital grant based on the number of students in the school division, with which the school divisions would be expected to finance ongoing renovations. The unconditional capital grant would be financed from the savings derived from reimbursing divisions for less than 100% of capital debt retirement.

This would provide school divisions with the flexibility of addressing their renovation requirements in accordance with their own assessment of needs and in accordance with the timing that the school division believed was appropriate.

Consideration could be given to financing roof repair projects under the same approach.

The Commission believes the option is worthy of further exploration. The Commission was unable to assign sufficient resources to exploring the implications of the option for the Commission to reach a definite conclusion on its merits.

4. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

In connection with the processes and criteria used in the approval of school capital projects by the Department of Education, the Commission recommends:

- That the Department of Education announce approval of all high priority projects in early November of the same year in which requests have been submitted by school divisions, and that approval of remaining projects be announced at the time of the Budget Speech.
- That the Department of Education adhere closely to the criteria which it has developed for prioritizing projects requested by school divisions.
- That the Department of Education promote long-term capital planning by the issuance of a policy statement on capital projects to supplement the criteria for prioritizing projects.

The Commission has concluded that the level of school capital debt is not a basis of concern in the overall funding of education.

The Commission has concluded that it would be inappropriate to have unconditional capital funding for major school capital projects, and that conditional funding should be retained.

The Commission recommends that the current method of financing major capital projects be retained, including the full reimbursement of approved capital debt retirement.

The Commission recommends that consideration be given to providing school divisions with a varying percentage of assistance for roof repair projects in accordance with the wealth of the school division.

CHAPTER FIVE

CENTRAL DEBT FINANCING AUTHORITIES

1. DESCRIPTION OF PRESENT FINANCING MECHANISMS

Each local government is responsible for arranging for and obtaining approval of the financing of approved capital projects. In addition to any approvals required by the provincial government, the Local Government Board (L.G.B.) must approve all long-term loans and must authorize all debenture issues. The L.G.B. approves the size of the debenture, the terms of the debenture, including the interest rate, the term, and the form and content of the debenture document itself. The L.G.B. does not become involved in the actual sales transactions, but it does assist local governments by offering marketing advice to local governments and providing information to investment dealers.

To assist the local government in marketing its debentures, an investment dealer is often hired by the local government.Investment dealers are often selected on the basis of a competitive bid, but other arrangements do exist. For example, the City of Regina employs a syndicate of three underwriting companies which rotate responsibility for marketing debentures every two issues. Local governments generally do not use the tendering process in selecting the underwriter, but usually select on the basis of the rate of commission charged by the investment agency.

Several markets are available for local governments to issue debt including: public sales ("over-the-counter") within the local community, internal sales to reserves or sinking funds, public sales to corporate investors, and sales to the Saskatchewan Municipal Financing Corporation (S.M.F.C.).

The magnitude of debentures issued by local government in Saskatchewan is relatively small compared to other provincial jurisdictions.[1] In 1985, debenture issues signed and sealed by the L.G.B. had a total value of $40.2 million. Appendix IV-14 outlines the value of debentures issued by Saskatchewan local governments for the period 1975 to 1985.

Local governments may sell a portion of their debentures to the S.M.F.C.. Current policies of S.M.F.C. limit its participation to 50% of the debentures issued by local governments, except the cities of Regina and Saskatoon for which the limit is 40%.

In 1984, S.M.F.C. participated in the financing of 43 projects by purchasing $13.1 million in debentures and in 1983 participated in 77 projects involving debentures totalling $20.4 million.

2. ROLE OF THE LOCAL GOVERNMENT BOARD

The Local Government Board (L.G.B.) performs a financial watchdog function to ensure financial stability and to preserve good credit ratings of local governments. The L.G.B. acts as a credit manager to help ensure that local authorities do not undertake projects beyond their means.

The functions of the L.G.B. include the following:

- Approval of long-term loans and debentures;
- Approval to construct local improvement works;
- Approval of certain local government budgets and mill rates;
- Approval of capital trust fund and sinking fund transactions;
- Approval of housing and special-care home agreements and land assembly agreements;
- Performing the functions of a public utilities board;
- Acting as the Board of Revenue Commissioners;
- Acting, with the addition of one representative from each of S.U.M.A. and S.A.R.M., as the Municipal Boundary Commission; and

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[1] See Appendix IV-7.

- Assisting local authorities to market their debentures by offering advice on marketing, determining and approving the interest rates, approving the form and content of debentures, and providing investment dealers with information.

Over the years, the L.G.B. has developed a number of policies which it feels assist local authorities in developing and maintaining good financial management and good credit ratings. Some of these current policies which influence debenture issues are:

- Construction contracts must not to be awarded until the required financing has been arranged and the sale of debentures has been assured, except in the case of a local improvement.
- The local authority must make a downpayment equivalent to one year's debt charges (principal and interest) as part of the financing of projects.
- The L.G.B. will not approve debentures for greater than 10 years. (The cities of Regina and Saskatoon have previously received approval from the L.G.B. for debentures having a term of 15 to 20 years.)
- Local authorities are encouraged to sell their debentures locally, rather than going to the national and international market place.
- The L.G.B. will not approve a borrowing arrangement where only the interest and no principal would be paid in any one year (i.e. "bubble debenture").
- Local authorities are encouraged to finance capital projects by accumulating reserves and capital trust funds and by providing as much funding as possible out of current revenues. When practical, the L.G.B. suggests financing part of a capital project by long-term loans of two to four years instead of issuing debentures.
- Local authorities are encouraged to issue debentures carrying annual interest payments.

3. ROLE OF THE MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

The Municipal Financing Corporation of Saskatchewan (S.M.F.C.) was established to assist in making capital funds available for the financing of essential capital projects by local governments. The S.M.F.C. obtains funds by borrowing directly or through the Department of Finance and uses the funds to purchase a portion of the authorized debentures issued each year by Saskatchewan local governments.

The S.M.F.C. does not perform a regulatory role. It has no authority to influence the amount or term of a debenture issued by local authorities. Each local government has the option as to whether it wishes S.M.F.C. to purchase a portion of its debenture issue and which portion of its issue it wishes to sell to S.M.F.C.. It is common practice for local authorities to sell to S.M.F.C. those debentures carrying the longer terms and resultant higher interest rates, because these are the ones the local authorities often have difficulty selling in the local market, due to a general unwillingness to invest funds for long periods of time.

The policy of S.M.F.C. is to purchase up to 50% of the debt issued each year by local authorities, with the exception of debt issued by the cities of Regina and Saskatoon in which cases S.M.F.C.'s participation is limited to 40%. In actual practice, S.M.F.C. has, over the years, participated in a smaller proportion of issues than its policy would allow. For example, in the 5 year period 1980 to 1984, S.M.F.C. purchased $85.8 million of debentures which represented 37.0% of the $232.2 million of debentures issued by local governments over the same period of time. As at December 31, 1984, S.M.F.C.'s outstanding debenture holdings totalled $123 million, which represents 34% of the outstanding debenture debt of Saskatchewan local governments.

S.M.F.C. does not structure its interest rates nor does it place restrictions on the term of the debentures it purchases.[2] As a result, local governments tend to sell S.M.F.C. the longer-term (5 to 10 year) portions of their debentures because the shorter-term debentures are easier to sell to other potential purchasers. S.M.F.C. establishes its interest rates monthly based on long-term borrowing rates of the Province of Saskatchewan. When these rates differ from that of the debentures, S.M.F.C. buys local debentures at a discount or premium.

S.M.F.C. does not make short-term loans to local governments, nor does it purchase any short-term debt issued by local governments (debt repayable within the year it was incurred).

4. MECHANISMS IN OTHER PROVINCES

Every province has a mechanism to approve local capital projects and their financing. In some provinces the provincial government itself has retained the approval authority but in the majority of provinces, including all western provinces, this authority has been given to an independent agency such as the L.G.B. in Saskatchewan.

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[2] A structured interest rate is one that varies according to the terms of the issue. Normally short-term debentures would carry a lower rate than a long-term debenture of 10 - 15 years.

This section deals with central agencies which assist with the sale of local securities rather than agencies which exercise central control over the incurrence of capital debt by local governments.

Central agencies which assist local governments with the sale of their debentures exist in all provinces, except Manitoba, Ontario, Quebec and Prince Edward Island. All of these agencies, except in British Columbia, are agencies of the provincial government and all, except in Saskatchewan, borrow funds which are then loaned to local governments.

A. British Columbia

The B.C. Municipal Finance Authority (M.F.A.) was created in 1970 and is unique in that it is owned by local governments (regional districts), and is not a provincial Crown corporation. The M.F.A. meets all long-term capital requirements of regional districts and incorporated municipalities, except the City of Vancouver. Also excluded from the mandate of the M.F.A. is the debt requirements for school districts and hospital boards. Short-term financing is not provided by the M.F.A..

Municipalities, through the regional districts, and the regional districts on their own behalf, present their requests for financing of capital projects to the M.F.A.. Once these requests have been approved by the M.F.A., the Board of the M.F.A. arranges for borrowing, usually on a semi-annual basis. The M.F.A. currently issues debentures twice a year for an annual total of between $75 to $100 million. The peak occurred in 1981-82 when debentures issued approached $200 million. On issuing its own debentures, the M.F.A. then enters into loan agreements with each of the participating regional districts which require capital financing.

The M.F.A. has two features which make it attractive to investors and precludes the need for a provincial guarantee. The M.F.A. has a Debt Reserve Fund of $200 million which can be used to finance late or missed payments by regional districts or municipalities. As well, the M.F.A. has the power to access directly the property assessment base in order to tax to obtain funds for the repayments of debenture debt, if required, because of default of the district or municipality. Adding to the attractiveness of M.F.A. debentures, is the fact that each municipality or district must, prior to arranging its debt financing, receive the mandatory approvals of the capital project from the provincial government and the Inspector of Municipalities who must approve the fiscal capability of the municipality to repay the debt.

For operating purposes, the M.F.A. levies 1/50 of a mill on all municipalities, including Vancouver, to meet its operating budget of approximately $500,000 per annum.

B. Other Provinces Having a Central Agency

Alberta municipalities are assisted in two ways.The Alberta Municipal Financing Corporation (A.M.F.C.), purchases all local government debentures and obtains favourable interest rates for its own debentures by having access to capital markets normally not available to individual municipalities. The provincial government also provides a guarantee of all A.M.F.C.'s borrowings. Until recently, A.M.F.C.'s requirements had been met from Canada Pension Plan funds and through sales of its debentures to the Alberta Heritage Savings Trust Fund and the General Revenue Fund. In the fiscal year 1982-83, A.M.F.C. re-entered the public market because the usual sources were not able to fully meet the needs of municipalities.

The Atlantic Provinces of New Brunswick, Nova Scotia and Newfoundland have central debt financing agencies. In New Brunswick, municipalities are obliged to borrow through the agency and the securities issued by the authority may be guaranteed by the Province.Municipalities in Nova Scotia, must borrow through the agency and the Province guarantees the borrowings of the agency. The Nova Scotia agency also provides funding to school divisions. The Newfoundland agency lends money to municipalities through the purchase of individual municipal securities and the Province may guarantee the borrowings of municipalities.

C. Provinces Not Having a Central Agency

Manitoba, Ontario, Quebec and Prince Edward Island do not have central debt financing agencies. However, these provinces do provide varying degrees of assistance to municipalities which require financing.

The Province of Manitoba purchases debentures from municipalities at interest rates tied to the borrowing rate of the Province. Larger cities are generally able to borrow at favourable rates and usually borrow on an individual basis. For hospitals, the Province finances the entire debt service costs of debenture issues and for schools, the Province acquires the debentures with funds which the Province has available for investment.

The Province of Ontario has substantially reorganized municipalities into larger regions. These larger regions issue debentures independently but, because of their relative large size, the issues are attractive to investors.

Municipalities in the Province of Quebec also borrow on an individual basis. All municipal financing must have the prior approval of the provincial government and the Quebec Municipal Commission. The larger communities, including the City of Montreal, finance through underwriting arrangements with investment dealers and banks, while smaller municipalities usually arrange for marketing of their debentures by tender.[3]

Provincial support for the funding of municipal debt is provided through the Caisse de depot et placement du Quebec, the agency which invests monies of the Quebec Pension Plan.

In the Province of Prince Edward Island, the smaller municipalities have their capital requirements met by the Province through the Community Development Investment Fund. Monies for this fund form part of the overall provincial borrowing requirements. The two cities of Charlottetown and Summerside sell their issues by competitive tender.

5. ISSUES

A. Cost of Borrowing

It has been suggested that the system currently used by Saskatchewan local governments for marketing their debt instruments is not the most cost effective in relation to other options. It has been suggested that if the borrowing of all local governments were centralized, savings could occur by virtue of access to larger markets such as the European and the American markets. As well, "board lots" of $50 million would achieve minimum transaction costs. By centralizing the approximately $40 to $50 million of debentures issued by all local governments in any year, the potential liquidity (resale value) of the debentures could be increased because of the development of a secondary market.

Experience in British Columbia has shown that a central finance authority can achieve a relatively high credit rating, thus achieving a reduction in the cost of borrowing. At present, most local governments in Saskatchewan do not have a credit rating and, therefore, must use other mechanisms to achieve a competitive interest rate.

Proponents of the present system in Saskatchewan state that the local governments in the province are able to obtain a competitive interest rate because of several factors. First, the small size of individual debenture issues can be sold locally, and are often purchased by local financial institutions like credit unions, which may not be as "rate-sensitive" as the large commercial tender. As well, the relatively small size of debenture issues enable them to find a niche in the market place which is unavailable to many of the larger issues.

It is also suggested that although there are no provincial guarantees of local debentures, the present controls exercised by the Local Government Board and the reimbursement by the Province of school capital debt retirement in its transfer payments, establishes a great deal of acceptance of the debentures in the market place. It is suggested that other options for administering the issuing of debt would have a nominal impact because of the high degree of acceptance that the debentures already enjoy.

B. Debt Instrument

The current debt instrument is normally a debenture carrying a term of 10 years, and an annual interest rate. It has been suggested that if the debentures in Saskatchewan carried interest rates at other than an annual rate, the market place for the current debentures would be much larger, thereby increasing the competitiveness and thus ultimately reducing the cost of borrowing.

Changes to the current debt instruments such as semi-annual interest rates would also better ensure their selling potential, because of the expanded market place.

The intent of the L.G.B. in limiting the term of the debentures is to minimize interest costs. It has been suggested that since debentures reflect the concept of "pay-as-you-use" they should have terms that more closely reflect the life of the capital asset itself.

The Commission considered the merits of creating an authority which would lend monies to local governments and raise the required amounts through the issuance of a "Saskatchewan Local Government Bond" which could be traded on the open market. If a secondary market were to develop for such bonds, their liquidity would be increased relative to the current local government debentures for which no secondary market exists.Purchasers of debentures must ordinarily retain them for their full term in order to regain their original investment.

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[3] Quebec is the only province in which the debentures of municipalities are sold routinely on a tender basis. The merits of this process are discussed later in this chapter.

Increasing the liquidity of the debt instrument generally increases the willingness of the individual or institution to invest in the issue and would perhaps reduce the interest rates.

On the other hand, the Commission was advised that the marketing of such an instrument would be more expensive. In addition, some would question the purpose to be served by such a mechanism considering that local governments currently have no difficulty in selling their debentures and that many are sold locally.

C. Marketing Processes

It has been suggested to the Commission that there is a need for a co-ordinating body which would function as a central clearing house of local government debentures, and would develop knowledge and expertise on marketing strategies and techniques which would assist individual local governments in marketing their securities. At the present time, expertise is not available to local governments or to the Local Government Board, except from the investment dealer.Although the investment dealer is a logical and valuable source of information on the dynamics of the market place, these private companies do have vested interests. Local governments may not all have sufficient knowledge of marketing strategies and processes on which to evaluate the advice received from investment dealers.

It has been suggested to the Commission that local governments in the province should consider selling security issues by competitive tender. At the present time, sale by tender is the principal method of marketing employed by local governments in the Province of Quebec, although outside that province the sale of securities by tender has declined. Others have suggested that by developing strategies for the marketing of debenture issues on the basis of advice from investment dealers, greater benefits can accrue than through the tendering process.

In many provinces, the debentures issued by local governments carry a provincial guarantee. It has been suggested that a provincial guarantee creates greater acceptance of the securities in the market place and, therefore, results in lower interest rates. On the other hand, approval of the debenture issue and, where required, the capital project itself by the provincial government and the Local Government Board, and the recognition of debt charges by the provincial government for school divisions, has resulted in a wide acceptance of local government debentures. It has been suggested that providing a provincial guarantee for local government debentures in Saskatchewan would have a minimal impact on their marketability.

D. Policies of the Saskatchewan Municipal Financing Corporation

The Municipal Financing Corporation establishes interest rates at which it will purchase local government debentures on a monthly basis. The rates set by S.M.F.C. are unstructured in that only one interest rate is established rather than a series of interest rates that vary with the term of the debenture purchased. The interest rate established by S.M.F.C. reflects the long-term borrowing rates of the Province, plus a margin with which S.M.F.C. funds its administrative costs and hedges on possible changes in the interest rate in the market place. The result of these policies is that local governments only sell to S.M.F.C. those debentures which carry the longest term and for which the S.M.F.C. rates are usually more competitive.

Some have suggested that the Municipal Financing Corporation should establish its interest rates more frequently to reflect the current market rates and should structure its interest rates according to the term of debenture it purchases. This would allow local governments to effectively use the Municipal Financing Corporation as a barometer in setting the interest rates for their security issues, and would allow local governments to sell shorter-term debentures to the Municipal Finance Corporation at more competitive interest rates.

It has been suggested that the Municipal Financing Corporation should eliminate the current ceiling of 50% of a debenture issue in order that local governments would have an assured market for the debentures they issue. The Commission notes that the Municipal Financing Corporation has not been requested, in practice, to purchase in total, a greater proportion of security issues than its current policy would allow. However, the Commission is aware that there have been a few special circumstances for which the S.M.F.C. has waived its policy on purchasing limits. The Commission is not aware of any local governments which were unable to market their security issues in their entirety.

E. Policies of the Local Government Board

The Local Government Board has a policy which requires that contracts for projects must not to be awarded until the required financing has been arranged and the sale of debentures has been assured. In the case where the proposed work is a local improvement, current legislation requires that the work must be completed and the prepayments collected from abutting property owners, before a debenture will be approved.It has been suggested that these two provisions restrict the ability of local governments to market their debentures strategically in order to minimize interest costs. It has been suggested that as long as the Local Government Board concluded that the local government could finance the project by the use of long-term debt without harming its financial integrity, then it should be the prerogative of the local government to arrange for the marketing of debentures at the time it considers to be opportune.

The Commission was also advised that it is the policy of the Local Government Board to require a bylaw to be established by the municipal council or school board specifying the interest rate for a specific security issue. There are instances when, because of the dynamic market place in which interest rates are changing rapidly that, by the time the approval process is completed, the interest rates approved by bylaw are no longer appropriate. This requires the local government to re-issue a bylaw specifying the interest rate. It was suggested that once the Local Government Board approved a specific debenture issue, a local government should be able to change the interest rate on its debentures, up to an approved rate, as an administrative decision. In this way, there could be appropriate responses to the market place without unduly delaying the marketing of the debentures.

6. CONCLUSIONS AND RECOMMENDATIONS

The Commission has concluded that the present system of marketing local government debentures in Saskatchewan is fundamentally sound.

The present system meets what the Commission believes are the three most important criteria for evaluating a debenture marketing system:

- The ability of local governments to sell their debentures.
- The ability to obtain competitive interest rates.
- The maintenance of local responsibility and accountability.

Local governments have had little difficulty finding buyers for their debentures at competitive interest rates. This is due in part to their ability to find local buyers, the preparedness of the Municipal Financing Corporation to purchase the longer term securities and the relatively low level of risk associated with the issues. The low risk factor is largely attributable to the regulatory role performed by the Local Government Board.

The Commission believes that local responsibility and accountability are promoted because local governments must individually accept the ultimate responsibility for marketing their debentures. Extensive local sales of debentures also promote local responsibility and accountability.

The Commission recommends the retention of the current system of marketing debentures.

The Commission considered the applicability of the British Columbia model to Saskatchewan. Two advantages of the B.C. approach are the development of professional expertise in the issuance of debentures and the possibility of obtaining lower interest costs because of larger issues which would have access to the major money markets.

The negative features of applying the B.C. approach to Saskatchewan are:

- During its formative years, there would be some difficulty for the new authority to become known and understood by the market place.
- The Commission believes that the current extensive purchase of local government debentures by local financial institutions and individuals has substantial advantages. It promotes community involvement, understanding and support for local government undertakings and it fosters a sense

of responsibility and accountability on the part of local government officials. This would be largely lost under a centralized mechanism.

- The aggregate level of debentures issued in Saskatchewan is too small to take effective advantage of a central marketing agency. For example, in 1985, local governments in Saskatchewan issued debentures with a total value of $40.2 million. Board lots of $50 million are required to achieve minimum interest costs.Administrative costs are likely to be too high relative to the total value of debentures sold.

- In British Columbia, the Authority deals with 28 regional districts. In Saskatchewan, there are close to 1,000 independent local governments. Dealing with this number of local governments would add complexity and administrative overhead relative to the B.C. Authority.

The Commission recommends that the Municipal Financing Corporation update the interest rate at which it is prepared to purchase debentures more often than its current practice of a monthly basis, and that the rates be "structured" in accordance with the term of the security.

The Municipal Financing Corporation plays a valuable role in assisting local governments with the marketing of debentures.These two changes would augment its performance and would more closely reflect the money markets.

The Commission recommends that the Local Government Board consider several changes in its current policies:

- **Local governments should be permitted to issue debentures with semi-annual or annual payments of interest.** This would improve accessibility of Saskatchewan local government debentures in some markets.

- **Local governments should be permitted to issue debentures of longer than 10 years in certain circumstances.** One of the purposes of debt financing is to spread the capital cost of certain facilities over their useful lifetime, and for some large facilities, differences in the term of the securities make a substantial difference in the annual debt retirement load.

- **Local governments should be allowed to award contracts before debentures are actually sold.** The current policy of requiring debentures to be sold before contracts are let requires certain local governments to issue debentures at an inopportune time. The current policy would be appropriate if local governments were having difficulty in finding buyers for their debentures, but this is not the case.

  The Commission emphasizes, however, that local governments should not be permitted to award contracts until the Local Government Board has authorized a debenture issue.

- **Local governments should be allowed to change the interest rate on debentures below the approved rate, as an administrative matter not requiring a bylaw.** Once the interest rate is set by bylaw, the Commission believes local government should have greater flexibility in adjusting the interest rate as the market place changes and, accordingly, interest rates on debentures need to be adjusted to respond to the market. Currently, local governments are required to pass bylaws authorizing all such changes in rates. In the view of the Commission, this requirement is cumbersome, causes unnecessary delays in the marketing process, and impedes the ability of local governments to respond promptly to changes in the money market.

The Commission has concluded that the Local Government Board performs a valuable role in serving as a financial watchdog to ensure the financial stability and to preseve the credit ratings of Saskatchewan's local governments. The proposed changes in Board policies would serve to make the Board more effective.

The Commission recommends that *The Local Improvement Act* be amended to permit debentures to be issued before the local improvement work is completed and prepayments collected from abutting property owners.

The current practice of requiring all the work to be done and prepayments collected from abutting property owners reduces local government flexibility in the timing of its debentures or loans.

PART V

HOSPITAL GOVERNANCE AND FINANCE

Part V deals with various aspects of the governance of hospitals and hospital financing.

HOSPITAL GOVERNANCE AND FINANCE

1. HISTORY

At the time of the formation of the Province in 1905, there were 6 hospitals in Saskatchewan and, by 1915, the number had risen to 28. Of the 28 hospitals, 11 were situated in cities and accounted for 73% of the total bed accommodation. It became evident that provision would have to be made for hospital care for residents of rural municipalities and smaller urban centres and, in 1916, **The Union Hospital Act** was passed. This Act permitted municipalities to join together to establish and support a union hospital. In 1935, there were 21 union hospitals in operation with a total capacity of 443 beds.

Prepaid hospital insurance plans were operating in the Northwest Territories as early as 1889 and, during the early years of the Province, many local insurance plans were implemented by municipalities and health regions. The provincial health department was involved primarily in the area of hospital standards. In 1947, the Saskatchewan hospital insurance program was initiated, which gave Saskatchewan residents universal hospital care insurance on a province-wide basis.

Between 1947 and 1958, the hospital insurance scheme was funded by the Province, without federal assistance. In 1958, the federal government passed the **Hospital Insurance and Diagnostic Services Act** (HIDS), which permitted the federal government to cost share hospital costs. In 1977, specific cost sharing arrangements under HIDS were discontinued in favour of financial transfers to the provinces under the Established Programs Financing (EPF).

From a historical perspective, although hospitals were originally a local municipal responsibility, the Province has been a major participant in the financing and provision of hospital services for almost 40 years.

2. HOSPITAL GOVERNANCE IN SASKATCHEWAN

There are four types of acute care[1] hospitals operating in the province:

- Crown hospitals;
- union hospitals;
- religious/not-for-profit hospitals; and
- municipal hospitals.

A. Crown Hospitals

The four acute care Crown hospitals are the University Hospital, Regina General Hospital, the Pasqua Hospital, and the Plains Health Centre. The latter two hospitals are governed by the Board of the South Saskatchewan Hospital Centre. The physical facilities of Crown hospitals are owned by the Government of Saskatchewan, but are operated by independent boards of governors. The members of each board are appointed by the provincial government.

B. Union Hospitals

The 110 union hospitals constitute the largest group of hospitals in the Province. Union hospitals are governed by boards of directors, consisting of persons appointed by the councils of the participating municipalities as authorized by **The Union Hospital Act.**

The Union Hospital Act enables municipalities in neighbouring geographical areas to join together to provide support to a local hospital. The Act enables the hospital board to build and maintain a hospital, to purchase or otherwise take over an existing hospital, or make grants to a hospital without owning it. Although there are 110 union hospitals operating in the province, there were 116 established union hospital districts as at March 31, 1986. There are nine districts which do not own and operate a hospital; however, eight of these districts operate health and social centres. Two hospital districts own and operate more than one hospital.

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[1] Acute care hospitals are those which provide 24 hour medical and nursing supervision for diagnosis and treatment of illness.

Within each union hospital district, the participating municipalities appoint local representatives to the board based on the equalized assessment of each municipality. The board must have a minimum of five members. Appointments to the board are for two years, and the board member must be a property owner, reside in the municipality, and cannot be a doctor.

C. Religious/Not-for-Profit Hospitals

There are 13 religious/not-for-profit hospitals in the province. These hospitals are owned either by specific religious orders or the Catholic Health Council. The Catholic Health Council is a non-profit corporation under **The Corporations Act.** The regulations under **The Hospital Standards Act** provide authority for those hospitals which have a board where the majority of members reside outside the province, to appoint a local board of management to exercise the duties of the board to the extent determined by the board. Most of the religious hospitals have appointed a local board of management.

Although the religious/not-for-profit hospitals do not have direct access to a tax base to finance capital projects and operating deficits, many of them have either entered into agreements with union hospital districts or have agreements with local municipalities for financial support under **The Hospital Revenue Act.** These agreements normally specify the representation local municipalities have on the local board of management in return for financial support.

D. Municipal Hospitals

There are two clearly identifiable municipal hospitals operating in the province. The Saskatoon City Hospital is owned by the City of Saskatoon, and the Craik Community Hospital is owned by the Town of Craik and the Rural Municipality of Craik. The Uranium City Municipal Hospital was owned by the Town of Uranium City. As of October 1, 1984, Uranium City reverted from a town to a northern settlement, under the control of the Department of Urban Affairs. The operation of the hospital is currently contracted to the Saskatoon City Hospital.

Some other hospitals function as municipal hospitals, but have non-typical ownership arrangements. The La Ronge Hospital is operated by the Lac La Ronge Hospital Association, a non-profit corporation. The Lloydminster Hospital was established by special Acts in both Alberta and Saskatchewan. The Fort Qu'Appelle Indian Hospital is owned and operated by the federal government.

3. FINANCING OF HOSPITALS IN SASKATCHEWAN

A. Financing of Operating Costs

In fiscal year 1984-85, Saskatchewan hospital boards spent a total of $487.3 million in operating expenditures and had operating revenues of $479.7 million. Government transfer payments in 1984-85 accounted for 92.6% of the total operating revenue of hospital boards, property taxes and grants-in-lieu of taxes accounted for 2.4%, and other sources of revenue accounted for 5.0%. Local levies have declined slightly as a percentage of total expenditures over the period 1978 to 1984.[2]

The Saskatchewan Hospital Services Plan (S.H.S.P.) does not pay individual hospital accounts for beneficiaries who receive care. Instead, S.H.S.P. pays what it considers to be reasonable net operating costs (less certain revenue) for each hospital. Three primary factors determine the amount paid to each hospital:

- The types of services each hospital should provide.

  Acute care hospitals are grouped into three classifications according to the types and level of services they are qualified to provide:district or community hospitals; regional hospitals; and base hospitals. District or community hospitals are usually smaller facilities which provide basic hospital services, while regional hospitals provide referral or specialized services. Base hospitals are located in Regina and Saskatoon and provide comprehensive services and act as the major referral centres for the province.Base hospitals also perform a major role in research and education.

- The volume of services each hospital should provide.

  S.H.S.P. determines the number of patient days it will approve for funding purposes based on a formula which is referred to as the "bed-need formula". This formula recognizes the population and the composition (age and sex) of the population served by the hospital.

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[2] See Appendices I-13, I-14, and Table I-1.

- The total cost of efficiently providing these services.

  Each hospital submits a budget based on the number of approved patient days and approved programs, and S.H.S.P. reviews the budget to determine the approved rate of payment.

The level of funding approved by S.H.S.P. is determined by the type of hospital (community, regional or base), and the services provided by the hospital and not the ownership (crown, union, religious, or municipal) of the hospital.

The current objective of the provincial government is to provide each hospital with sufficient funds to enable each hospital to fully finance a reasonable level of service, as defined by S.H.S.P.. Hospitals are expected either to live within their allocation provided by S.H.S.P., or to finance any expenditure in excess of that amount from their own sources.

In 1983-84, the operating grants from S.H.S.P. to all hospitals accounted for 90.4% of the total actual expenditure. In addition to the provincial payments, hospitals receive income from patients for items such as preferred accommodation and charges for extended care (Level 4) services and from other agencies such as the Workers' Compensation Board, and the Department of Veterans' Affairs.

S.H.S.P., in determining the net approved payments it will provide, excludes several income items. Income from donations, local levies, and investments is considered to be the hospital's own funds which is beyond consideration by S.H.S.P., and which can be used for any purpose approved by the hospital board.

Although the operating grants from S.H.S.P. account for 90% of hospital expenditures, other sources of income such as patient charges and other provincial grants significantly reduce the operating deficit a hospital would otherwise incur. The deficits experienced by hospitals in the fiscal year 1984-85 represented 0.9% of total approved operating expenditures. This level of deficits has decreased since 1980-81, when deficits represented 1.2% of approved operating expenditures.[3]

B. Financing of Capital Costs

Hospitals spent an estimated $36.6 million in capital expenditures in 1984. Neither a historical series of total capital expenditures nor a breakdown of the sources of financing of the expenditures was available from the Department of Health.

Regulations under **The Hospital Standards Act** state that no building shall be constructed or acquired for hospital purposes and no hospital shall be altered by enlarging or remodelling until prior approval has been obtained from the Minister of Health. **The Health Services Act** empowers the Minister of Health to make grants, subsidies or loans to local governing authorities, hospital boards and health regions for the provision and operation of health services or public health services.

Provincial grant assistance is provided to help finance the cost of approved hospital construction and renovation projects costing in excess of $10,000. The provincial grant for hospital construction is scaled according to the function of the hospital. Hospitals are eligible to receive construction grant assistance according to the following basis:

- Base hospital - 100% of approved construction budget, but hospitals are responsible for equipment costs.
- Regional hospital - 70% of approved capital budget.
- Large community hospital (50 or more Average Daily Census) - 60% of approved capital budget.
- Small community hospital (up to 50 Average Daily Census) - 50% of approved capital budget.

There is also a "cost protection grant" available to hospitals:

1) Union Hospitals

   Union hospitals are eligible to receive a "cost protection grant" if their share of approved construction costs exceeds an amount equivalent to 5 mills over 10 years. The Province will assume costs over this amount (5 mills x 10 years), up to a maximum level of 85% of the approved costs.

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[3] See Appendix V-1.

The Province also contributes to the cost of furnishings and equipment purchases by union hospitals, by recognizing depreciation costs for these items in the operating grant.

2) Religious/Not-for-Profit Hospitals

Religious/not-for-profit hospitals have no direct taxing authority to support capital projects and the Province has designed a specific "cost protection grant" for them. If a religious/not-for-profit hospital's share of capital costs (net of all grants) exceeds $500,000, the Province will share all costs over that amount on a 50% basis.

Unapproved capital expenses and the initial purchase of furnishings and equipment are the responsibility of the hospital. The Province does reimburse the hospital for equipment and furnishing costs on a depreciation basis.

The present system of provincial capital grants is based on a tradition of local participation in the funding of hospital capital costs. This tradition is based on the premise that the hospital facilities are owned by independent boards, and that the owners have an obligation for the construction and renovation of their facility.

The provincial capital grants system also reflects the fact that regional and base hospitals need larger and more extensive services and facilities. It is thought that local taxpayers, although they have more immediate access to these enriched services and facilities, should not be required to finance these higher levels of services which are available to all residents of the region or province.

The current grant formula was implemented in 1982.There were significant increases in the proportion of approved costs provided by the capital construction grants and a cost protection grant was introduced at that time.[4]

Equipment not associated with construction projects is funded through the operating grants. Prior to acquiring equipment over a specified cost limit, hospitals must obtain the approval of S.H.S.P.. This approval mechanism is to ensure the equipment meets provincial standards and does not have excessive operating costs associated with it. Crown-owned hospitals receive an annual equipment allocation to fund acquisitions. Other hospitals which maintain a plant ledger receive depreciation allowances according to a standardized depreciation schedule, but if a hospital does not maintain a plant ledger, all equipment is depreciated over a 16 year term.

C. Union Hospital Levy

Where hospitals experience a deficit, this deficit must be met by the hospitals' own sources of funds which, in the case of union hospitals, can include a local tax levy. In 1985, the average union hospital levy was 6.5 mills, 2.3 mills of which was for operating deficit. This average levy was an increase from the 6.3 mills in 1984 and 4.5 mills in 1978.[5] In 1985, there were 22 union hospital districts which did not have a tax levy for deficit purposes and 20 districts which levied less than 1 mill for this purpose.[6]

There are a number of hospitals with relatively large tax bases which annually run operating deficits, but for which the resultant mill levy is relatively small. For example, one hospital district requisitioned approximately $80,000 for operating deficits in 1985, but this represented a tax rate of only 3.4 mills. Conversely, a hospital with a relatively small tax base may have to levy a very high mill rate to raise a small amount of funding for an operating deficit. Another hospital requisitioned approximately $9,000 in 1985 to meet its deficit, but this represented a tax rate of 14.8 mills.

In 1985, the average mill rate in union hospital districts for the local share of construction costs was 4.2 mills. There were 13 union hospital districts which do not have a levy for capital purposes and there were 5 districts which levy less than 1 mill for capital purposes.[7]

D. Hospital Revenue Tax

Prior to 1966, municipalities which were not members of a union hospital district were not required to make any contributions for hospital services. Since I966, these areas must contribute 2 mills on their equalized assessment to the provincial government for reallocation to hospitals providing services to the residents of these areas or they must have an agreement with a specific hospital or hospitals which requires a contribution of 2 mills or more to the hospital(s).

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[4] See Appendix V-2 for a comparison of the current formulas with the arrangements which were in effect from 1970 to 1982.

[5] See Appendix V-3.

[6] See Appendix V-4.

[7] See Appendix V-4.

The purposes for the introduction of the hospital revenue tax were to raise revenues for hospitals, to provide a disincentive for municipalities to opt out of union hospital districts, and to provide incentives for municipalities to join union hospital districts.

In 1985, the hospital revenue tax levy totalled $0.3 million and was received from 114 municipalities and distributed to 40 hospitals.[8]

Municipalities may become exempt from the hospital revenue tax by entering into an agreement with one or more hospitals to provide annual grants at least equivalent to 2 mills. In 1985, there were 81 municipalities which had agreements and they provided $1.8 million to 32 hospitals.[9]

4. HOSPITAL SERVICES IN ONTARIO AND WESTERN PROVINCES

There is a variety of organizational and financial arrangements for hospitals among the provinces.[10]

These provinces have some hospitals which are similar to the union hospitals in Saskatchewan in that they have access to municipal tax bases, and they also have religious and Crown-owned hospitals. Among the other western provinces and Ontario, municipal levies for operating purposes are not permitted except in Manitoba. In Manitoba, the levies for operating purposes are negligible.

Manitoba and Alberta have provincial capital grant programs which fund 100% of approved capital costs. The provinces of Ontario and British Columbia have grant programs which fund only a portion of the approved costs of construction.Hospitals in these latter two provinces must fund their share of approved capital costs from their own sources of revenues which can include municipal tax levies in municipally sponsored hospitals.

5. ISSUES AND CONCERNS

A number of issues and concerns have arisen in regard to the current governance and financing arrangements for hospitals.

A. Accountability

Hospital boards are independent bodies which have the legislative authority to provide hospital services to the citizens of Saskatchewan. Union hospitals have the added authority to levy taxes on the taxpayers of the hospital district. However, hand-in-hand with this authority, hospital boards assume a responsibility to be accountable to the public for their actions and their decisions in regard to the services they provide and the monies they raise and spend.

The Commission has received comments which suggest that there is room for improvement in regard to the accountability of hospital boards. Some specific concerns expressed to the Commission are:

- Non-Election of Hospital Boards

  Some have pointed to the fact that hospital boards are not elected. This means that the public is not able to hold members of hospital boards accountable for their performance through the electoral process.

- Local Tax Levies

  Some have suggested that it is contrary to democratic principles to have a non-elected board vested with authority to levy taxes, as are union hospital boards. They suggest that the accountability which union hospital boards have to the public through the municipalities which appoint them is indirect and ineffective.

- Misplaced Accountability

  Municipal councils have indicated that because they collect taxes on behalf of hospital boards, in the eyes of the taxpayers, the municipal council is perceived as being responsible for the union hospital levies. Some believe this is a form of misplaced accountability.

- Annual Meetings

  Annual meetings are a legislative requirement. However, few hospital boards regularly inform the public of their activity or their financial requirements.

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[8] See Appendix V-5.

[9] It would be misleading to add together the number of municipalities with agreements and the number which pay the hospital revenue tax because one part of one municipality may be subject to the hospital revenue tax, while another part pays by agreement an amount directly to a hospital.

[10] See Appendix V-6 for a more detailed description of the arrangements in Ontario and the western provinces, and Appendix V-7 for a summary of hospital capital grants in other provinces.

- Religious/Not-for-Profit Hospitals

  It has been suggested that although there is an indirect form of accountability for union hospital boards through the municipalities which appoint them and for Crown hospital boards through the provincial government which appoints them, religious/not-for-profit hospitals have private boards of directors for which there is no formal accountability, either direct or indirect, to the public. Some suggest that this is particularly undesirable in cases where the religious/not-for-profit hospital is the only hospital serving an area.

In response to these concerns, others express certain counter-arguments:

- People who are selected to be a member of hospital boards are generally selected because of their interest in hospital services and their desire to serve the public. Although the formal structure for accountability may be less than ideal, hospital board members, in general, endeavour to maintain contacts with the general public and to reflect public desires in their board decisions.
- Religious/not-for-profit hospitals often have local boards of management which endeavour to maintain contacts with the general public.
- Some municipalities have a formal reporting system to ensure feedback and communication with their appointee to hospital boards, thereby promoting accountability of that board member.

B. Participation in Union Hospital Districts

Because of the difference between the union hospital levies and the two mills hospital revenue tax, there is now a financial incentive for municipalities to opt out of union hospital districts.

There have been instances of municipalities withdrawing from union hospital districts, either because of high union hospital levies or because of anticipated increases in the levies due to planned construction projects. The disparity between union hospital levies and the hospital revenue tax statutory levy of two mills has been a concern of both the provincial government and hospitals.

In 1987, the average union hospital levy will be reduced to approximately 3.0 to 3.5 mills, because of the completion of the provincial general reassessment. Because the hospital revenue tax levy is statutory, it will remain at 2 mills. Therefore, the disparity between the two taxes will be reduced, but will remain and will again increase if the individual union hospital levies escalate.

C. Access to the Property Tax

Two types of concerns have been expressed in regard to access of hospital boards to the local property tax:

- Some have argued that union hospitals should not have access to the property tax.

  The reasons advanced for this point of view are, first, that hospital services are a provincial responsibility and that they should be completely funded by the provincial government. The second reason advanced is that access by hospital boards to the local tax base provides the opportunity for the provincial government to decide unilaterally to reduce its level of funding of hospital services and, in essence, transfer a greater share of the costs to the local tax base.

  The Saskatchewan Health-Care Association has advised the Commission that they are supportive of the current financing structure, but have indicated they are concerned about the apparent subjectiveness of what is a "reasonable" level of operating expenditures. They have indicated this issue is contentious and is a cause of friction between the local hospital board and the provincial government.

- Some have expressed concern that religious/not-for-profit hospitals are disadvantaged by not having access to the local tax base.

  Religious/not-for-profit hospitals, whether they are community, regional or base hospitals provide similar services to the general public as do other similarly sized publicly owned hospitals. They are financed in a similar fashion by the provincial government for operating and capital purposes, except for the recently introduced cost-protection feature for the local share of capital costs. However, they are treated differently as to their access to local sources of revenue.

Religious/not-for-profit hospitals are not optional facilities in the provincial hospital care system, but are essential components of the current overall structure. In many communities in the province, religious hospitals are the sole source of acute care treatment and, in several of the cities, religious hospitals bear a significant portion of the total patient load.

The Commission is aware that there are, at the present time, several instances where union hospital districts have agreements with local religious hospitals for financial contributions and where individual municipalities have agreements, under **The Hospital Revenue Act** with religious hospitals. However, the Commission has been advised that these voluntary mechanisms have, at times, proven to be ineffective.

D. Division of Responsibility

The regulations under **The Hospital Standards Act** state that every hospital must have an appointed or elected board and that the board has "full administrative control" of the hospital. **The Union Hospital Act** provides additional powers to boards of union hospitals related to their responsibilities for the union hospital district as distinct from the hospital, and provides that a hospital board is a legal entity.

Local hospital boards have the authority to make decisions related to the operation of the hospital.[11] For example, a hospital board recruits and appoints physicians to the medical staff of the hospital and can decide to provide services and expenditure levels in excess of that approved by the provincial government. The hospital board also has access to its own funds which are beyond the control of the provincial government and can use these funds for any purpose it deems appropriate.

The provincial government has two types of decision-making powers in regard to hospitals: 1) it establishes minimum province-wide standards of hospital care to be provided to Saskatchewan residents, and 2) it exercises overriding powers of approval over certain decisions made by local hospital boards. The first type of decision-making authority is one that is common to a number of local government services. The second type of provincial authority overrides the general decision-making authority of the local hospital board. For example, the Province approves all hospital bylaws and regulations before they come into effect and the Province must approve all construction projects and associated contracts before construction can commence. This latter category of authority can, on occasion, contradict the general authority of the hospital board.

The authority of the Minister of Health to appoint a board of inquiry to investigate disputes between the hospital and its medical staff is an example of the authority of the provincial government overriding the authority of the local hospital board.

The S.H.A. has indicated to the Commission that the current division of responsibility between hospital boards and the provincial government is, in general, satisfactory. However, the S.H.A. states that the authority of the minister to establish a board of inquiry is an infringement on the responsibility and authority of hospital boards and is inappropriate.[12]

E. Capital Financing

The present provincial construction grant structure requires local contributions of up to 50% of the approved capital budget for a project and 100% local funding of unapproved expenses. Recently, a cost protection feature has been introduced which limits the local contributions for approved projects.

The Saskatchewan Health-Care Association has suggested to the Commission that due to the restrictions placed on the capital construction and financing processes, the government should fund 100% of the costs of approved projects. The restrictions on capital projects include approval by the provincial government of the project itself, the project plans and drawings, the associated financial plan and the contracts. The authority of local boards is further restricted by the application of space and design standards which must be met in constructing or renovating a hospital. The S.H.A. states that these restrictions leave no room for local initiatives or for realistic local autonomy.

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[11] See Appendix V-8 for examples of the decision-making responsibilities for local hospital boards and the provincial government.

[12] The Minister of Health has the authority to establish a Board of Inquiry to investigate disputes between the hospital board and its medical staff. The Board of Inquiry may make recommendations which are contrary to the original decisions of the hospital board. The Commission did not address this specific issue as it was considered to go beyond the mandate of the Commission.

6. CONCLUSIONS AND RECOMMENDATIONS

A. Provincial Responsibility and Funding

The Commission has concluded that hospital services are primarily a provincial responsibility.

The Commission reached this conclusion after examining the division of responsibilities between local hospital boards and the provincial government and a review of the types of services delivered at the local level.

The Commission previously identified and discussed three categories of services delivered at the local level.[13]

- Services which are purely local in nature.
- Services for which the provincial government has an interest in enforcing certain minimum standards, but for which other decisions are deemed to be appropriate to be made at the local level.
- Services for which the provincial government sets the standards and level of services, but for which administration is thought to be more effectively done at the local level.

The Commission believes that some hospital services fall into the second category, specifically those particular services that exceed the type and level supported by the Saskatchewan Hospital Services Plan, and which are locally financed.

The Commission believes, however, that the bulk of the services provided by hospital boards fall into the third category. It is not practical for all types of hospital services to be provided in all hospitals. In accordance with the need for province-wide rationalization of services and facilities, S.H.S.P. defines the type and level of services which it believes is appropriate for each hospital, and funding is provided accordingly.

B. Funding of Provincially Defined Services

The Commission recommends that S.H.S.P. continue to fund 100% of the cost of services which it deems to be appropriate for each hospital, based on the expenditure which it deems to be sufficient to finance these services.

Accordingly, the Commission also recommends that the property tax not be used as a primary or a major source of funding for hospitals.

The need for province-wide rationalization of hospital services makes it apparent that the general levels and types of services must be defined by the provincial government. Along with this role should come the responsibility for providing the financing of the provincially defined services.

However, the provincial government should not be expected to "write a blank cheque" by agreeing to reimburse hospital boards for expenditures which exceed what should be sufficient to meet the provincially defined level of service.

C. Discretionary Local Services and Their Financing

The Commission recommends that hospital boards continue to have the authority to provide hospital services additional to those which are approved and funded by the provincial government.

The Commission recommends that any additional services provided by hospital boards above the provincially defined level as well as expenditures above the approved level for the provincially defined level of services, continue to be financed from local sources.

The Commission makes these recommendations on the basis of the following considerations:

- The arrangements enable local people to provide themselves with additional services which they desire, but which are not funded by the provincial government.
- The arrangements provide a "safety valve" in hospital funding by providing a means of resolving differences between what is desired locally and what the provincial government will support.

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[13] See Part I, Chapter One.

- The arrangements provide a means for compensating for inevitable weaknesses in the funding formulas when such formulas, from time to time, provide marginal inadequacies in funding for particular hospitals or situations.

- The arrangements serve as a moderating influence on local desires and expectations, which might otherwise cause the provincial government to spend more than necessary. For instance, without the availability of local revenue, pressures would increase on the provincial government to fund more and more hospital services. These pressures may create inequities in the allocation of services and may become quite costly because of the lack of rationalization of services.

- The arrangements avoid the negative consequences of "last dollar" financing under which the provincial government is committed to financing all operating expenditures. "Last dollar financing" tends to reward inefficient operations and penalize the efficient, because deficits experienced by inefficient hospitals are ultimately funded by the provincial government, while no additional funds are provided to efficient hospitals which do not incur operating deficits.

D. Local Levies and Governance

The Commission recommends:[14]

That all municipalities be required to be a member of a union hospital district or a district which supports a Crown or religious/not-for-profit hospital.

That local property tax levies by a hospital board be subject to the approval of a numerical majority of municipalities in the district, and by municipalities representing a majority of the assessment base.

That religious/not-for-profit hospitals have access to the local property tax base on the same basis as union hospitals. That is, they should have the right to requisition funds, but the requisition must be approved by a numerical majority of municipalities and by municipalities representing the majority of the assessment base in the district.

The reasons for these recommendations are:

- The Commission believes it is wrong in principle for taxes to be levied by a group which is not accountable to an electorate. Union hospital boards are currently in this situation. By requiring hospital boards to seek the approval of municipalities for all levies, hospital boards retain access to a local tax base. The proposal would also make the levies subject to authorization by electorally accountable representatives.

- Some municipalities currently end up with a financial advantage because they are free to opt out or remain out of a union hospital district and pay, on average, only one-third of the average local hospital tax of municipalities which are in a union hospital district. By requiring all municipalities to support a district, financial advantages arising from such circumstances will be eliminated.

- There would be no need to maintain the hospital revenue tax under these arrangements since all municipalities would belong to a hospital district.

- The current financial disadvantage faced by religious/not-for-profit hospitals, would be eliminated. They would not be guaranteed access to local property taxes, because levies would be subject to the approval of municipalities. However, they would have the same opportunity to make their case for a levy as would other hospitals.

As an alternative to the foregoing recommendations, the Commission considered the possibility of requiring hospital boards to be elected, as a means of ensuring their accountability to the public. The election of hospital boards would overcome the problem of a governing body having the authority to levy taxes without being electorally accountable to the public for their decisions.

The Commission rejected this option for several reasons including the additional expense associated with the elections, the relatively small extent to which local levies are used in the overall financing of hospitals, and the fact that it would not resolve the inequalities faced by religious/not-for-profit hospitals under the current arrangements. In short, the recommended option is much superior.

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[14] See Appendix V-9 for details of the proposals.

The Commission also considered the option of increasing the hospital revenue tax as a means of encouraging municipalities to join union hospital districts and provide greater equity in the distribution of the local tax load for hospital services. The Commission rejected this option partly because there would be perceived inequities regardless of the number of mills at which the levy was set. There would always be some municipalities with either higher or lower local levies than the hospital revenue tax levy. In hospital districts where the local levies were higher than the hospital revenue tax, it would be argued that there would still be incentives for municipalities to opt out or stay out of the district. In hospital districts, with no levies or levies lower than the hospital revenue tax, it could be argued that the hospital revenue tax was unfair.

The Commission also rejected this option because it does not address the issues of accountability and the financial disadvantage faced by religious/ not-for-profit hospitals.

E. Capital Financing

The Commission recommends that the current practices of financing capital expenditures from a combination of provincial grants and local contributions be continued.

Arguments used by those who support local contributions for part of the funding of hospital capital projects are:

- Local contributions reinforce a sense of ownership and pride in the local hospital and the services it provides.
- The local sense of ownership fostered by local contributions is responsible for high levels of volunteer community work in connection with the hospital, and a desire on the part of capable people in the community to serve on the hospital board.
- Use of local sources of revenue promotes a greater sense of accountability on the part of hospital board members and administrators, and a greater sense of responsibility for the optimal use of the facilities.
- The requirement for local contributions serves to moderate community demands for facilities. Local financial input for capital costs places a greater responsibility on the local hospital board to ensure that the capital project is needed and that the specifications of the project are appropriate.
- The 1982 revisions to the capital funding arrangements brought about greater fairness in the local funding requirements, and ensure that no individual hospital district needs to have an excessive burden in meeting its local share of capital costs. There is a stronger argument for some local funding if the overall financial arrangements are fair.

Those who support 100% provincial government funding of hospital capital expenditures use the following arguments:

- Hospital services are primarily a provincial responsibility. S.H.S.P. defines, for each hospital, the type and level of services for which it is prepared to provide financing for operating purposes. The provincial government should, accordingly, be prepared to finance the capital costs necessary for the provision of those services.Local contributions should only be required when local authorities wish to have facilities exceeding the standards set by S.H.S.P..
- In spite of the improvements made in 1982 to the capital grant policies, there are still inequities in the capital financing of hospitals. Small hospitals must have 50% local contribution (subject to the cost protection portion of the formula), while larger hospitals are required to have a smaller percentage of local input. Religious/ not-for-profit hospitals do not qualify for the cost protection grant until their share of approved costs exceeds $500,000, and then they are still responsible for 50% of costs in excess of that amount.These inequities would be rectified by 100% provincial financing of approved capital costs.
- Requiring a local contribution has a minimal impact on the level of demands for capital assistance:
    - — Nearly all demands are for renewal or replacement of facilities, not the creation of new hospitals in new locations.
    - — When local authorities are able to demonstrate their ability to raise

their share of capital costs, it serves to put pressure on the provincial government to provide "its share". Therefore, local contributions can serve to magnify, not moderate, demands on the provincial government for capital funds.

- 100% financing of approved capital costs would parallel the current practice of S.H.S.P. to fund 100% of the standard operating cost of approved services.

On balance, the Commission believes that the arguments in favour of some local contribution to the capital cost of facilities outweigh the arguments in favour of 100% provincial funding of capital.

F. Relationship Among Hospitals and Other Health Programs

The Commission noted a number of health related programs which employ local boards in their administration, including:

- special care homes;
- home care services;
- community health services;
- road ambulance services.

Although the Commission believed that consideration of issues associated with the apparent proliferation of local health boards was at the periphery of its mandate, it concluded that it has a responsibility to report the following observations and comments:

- The health field is extremely segmented with little or no co-ordination at the local level.
- At the local level, the current system favours competition among local health delivery agencies, rather than co-operation, in seeking funds for health programs.
- There are few mechanisms at the local level to ensure patients are served by programs which meet the needs of patients and are cost effective (e.g. special care home v.s. hospitals v.s. home care).
- There are inadequate mechanisms for integrated health planning at the local level.

The Commission notes that local and regional health needs and circumstances vary. These varying needs should be identified and accommodated in the processes of planning, co-ordination and priority-setting. The Commission is not aware of any structure in existence at the present time which elicits local input into the health planning process which is performed at the provincial level, nor is there a mechanism in place to allow broad health planning to be performed at the local level.

The Commission believes there must be rationalization of health-care services. Ever increasing health costs necessitate that every health dollar be spent as effectively as possible and services be examined exhaustively. Comprehensive health care cannot be provided in each and every community. Rather, there is need for specialization and rationalization of services, if the overall system of health care is to stay within the financial capacity of the Province.

The Commission recommends that as an ultimate objective district health authorities be developed to plan and rationalize the health delivery system. The Commission notes that the current district co-ordinating committees play a useful role in assigning residents to the appropriate health care service. However, the Commission believes there is a need for greater planning and rationalization of health services. These proposed district health authorities would have decision-making capabilities for the full range of health services in each region or district, in terms of allocating financial resources and ensuring patients receive the appropriate type and level of services. To achieve this ultimate goal, **the Commission further recommends that:**

- **There be renewed effort at working toward coterminality of boundaries of agencies delivering health programs; and**
- **District health planning bodies be established to focus on planning for health programs at the local level.** These bodies could be initially developed on a voluntary and pilot-project basis. As the bodies developed expertise and experience, they would become a regional or district level authority with decision-making powers.

The focus of the district health planning bodies would be to determine the overall health needs of the residents of the region, to identify the services available in the region, to identify the gaps between needs and available services and to identify priorities. In the initial stages of development, the district health planning bodies could be advisory.

7. OTHER OPTIONS AND CONSIDERATIONS

There are three provincial tax levies on municipalities related to health and social services provided in the province: the Hospital Revenue Tax, the Public Health Levy, and the Saskatchewan Assistance Plan Levy. The Hospital Revenue Tax was discussed earlier in this chapter and the Commission believes the tax should be discontinued. The remaining two provincial tax levies are dealt with in this section of the report.

A. Public Health Levy

1) Background

In 1946, **The Public Health Act** was passed. This Act gave the Province the mandate to provide preventative health services to all residents at the community level. This mandate is currently fulfilled through the Community Health Services Branch of the Department of Health. The cities of Regina and Saskatoon operate their own public health programs, and services in the north are provided by another branch of the Department of Health.

Each municipal council has powers and responsibilities related to public health services and has a dual title of Board of Health. Each Board of Health nominates a representative for the District Health Council. In turn, one or more delegates from the District Health Council are elected to the Regional Board of Health. There are 10 health regions which geographically divide the province.

The Regional Board of Health has a number of statutory duties which include hiring staff, directing and providing public health services in the region, and requisitioning taxes.However, in actual practice, the Regional Health Board has a limited role as an advisory body to the medical health officer (a provincial employee) and the Minister of Health.

Community health programs are developed in a region in accordance with policies of the Department of Health. Administration of programs in each region is the responsibility of the medical health officer and/or health region administrator who reports to the Department of Health. These persons supervise the activities of employees in the region (public health nurses, public health inspectors, psychologists, speech pathologists, chiropodists and nutritionists).

2) Financing of Public Health Services

The cost of public health services is shared between the provincial government and the municipalities of the various health regions. **The Public Health Act** specifies the regional allotment at 1/3 of the total annual cost with an overriding provision that it not exceed 50¢ per capita. Each municipality's share is called the Public Health Levy. The 50¢ per capita ceiling has been unchanged since 1946. With continually escalating costs, the formula has long become outdated as the estimated 1985/86 costs are $16.39 per capita.

The Public Health Levy of 50¢ per capita yielded revenues to the Province of $307,091 in 1984-85.

The Public Health Levy of 50¢ per capita, obviously represents a very small payment for small municipalities.

Regina and Saskatoon operate their public health services independent of the provincial program. The Province provides these cities with a grant of $3.35 per capita. Actual expenditures by the cities of Regina and Saskatoon in 1985 were $15.47 per capita, and $15.66 per capita, respectively. In terms of gross dollars, public health grants to these two cities totalled $1.4 million, compared to their actual expenditures of $5.5 million.Recently, the Department of Health and the Cities of Regina and Saskatoon have been re-examining this arrangement.

3) Recommendation

The Commission recommends that the Public Health Levy be eliminated.

The public health program delivered by the Community Health Services Branch of the Department of Health is a provincial program directed from the provincial level. There is little local input or decision-making in designing the program policies and practices, no local responsibility for delivering the program and, therefore, no sound basis for local financial support for the programs. In any event, the amounts are small and perform no recognizable purpose.

In regard to the public health programs delivered by the cities of Saskatoon and Regina, the Commission recommends that the provincial government increase its grants to these two cities to levels which reflect the cost of the services delivered through the Community Health Service Branch of the Department of Health, to residents of other municipalities in the province.

The Commission sees no reason for the Community Health Services Branch to assume responsibility for the delivery of public health programs in Saskatoon and Regina as long as these cities are prepared to continue with the responsibility. There may be advantages to having local administration of this service so that particular local needs and circumstances can be accommodated. At the same time, there is little justification for these cities to bear additional costs as a result of local administration of the programs except in regard to that portion of the costs that may be attributable to a broader range and higher level of services.

B. Saskatchewan Assistance Plan Levy

1) Background

The Saskatchewan Assistance Plan (S.A.P.) was introduced in 1966 as an income supplement program for persons in need. Under S.A.P., the Department of Social Services, through its regional offices, provides monthly payments and other services to persons qualifying to receive support.

Traditionally, social aid has been a local responsibility. However, with increased demands for services, it became difficult for local governments to finance the costs. In 1958, a per capita sharing arrangement for the social aid program was devised, but the municipalities continued to be responsible for the delivery of social aid. On average, municipalities collectively paid between six and seven percent of the financial aid issued under the program.

In 1966, the Province assumed responsibility for the social aid program with the introduction of the Saskatchewan Assistance Plan. With the introduction of this program, municipalities continued to cost-share the social aid program and the federal government, through the Canada Assistance Plan (C.A.P.), financed 50% of the total costs. The C.A.P. only considers total expenditures and does not consider intra-provincial cost-sharing arrangements, nor does it require a municipal contribution.

On introduction of S.A.P., municipalities were given the option of retaining responsibility for the operation of the social aid program.Only Moose Jaw and Prince Albert opted to keep the program. Although the cities deliver the program, the Province pays both the administrative costs and the costs of the benefits provided. The estimated payments made by the Province to Moose Jaw and Prince Albert for delivering the social aid program for 1985-86 are $1.3 million.

Every five years, the programs administered by Moose Jaw and Prince Albert must be reviewed and must receive accreditation in order to continue. This process attempts to ensure that these programs are operated in a manner similar to the provincially delivered program.

2) Financing of the Saskatchewan Assistance Plan

The administration and program costs of the Saskatchewan Assistance Plan are funded primarily by the Provincial Government which receives contributions from the federal government and, to a limited degree, municipal governments.

The aggregate municipal share of S.A.P. costs is the lesser of: 1) 5% of the overall cost of the Plan, or 2) the base years (1966-67) collective municipal contributions ($1,130,690), compounded annually at 3%.

S.A.P. costs have escalated at a rate substantially greater than 3% annually, which has resulted in the municipal contributions representing significantly less than 5% of the total costs of the Plan.

After the aggregate municipal share is determined, each municipality is assigned its share on a weighted per capita basis. For every $1 per capita paid by cities, 80¢ per capita is paid by towns and 40¢ per capita is paid by villages and rural municipalities. In 1985-86, the per capita amounts were $2.78 for cities, $2.23 for towns and $1.11 for villages and rural municipalities.

In 1984-85, the total levy on municipalities amounted to $1.9 million.

3) Recommendation

The Commission recommends that the Saskatchewan Assistance Plan Levy be discontinued.

The Saskatchewan Assistance Plan is a provincial plan and as such it should be totally financed by the provincial government. Municipalities are not responsible for S.A.P. policies or program criteria and there is no apparent purpose served by the levy. In any event, the amount of local revenue raised is an extremely small portion of overall costs of the program.

The Commission believes that the Cities of Moose Jaw and Prince Albert should be allowed to continue to operate and administer accredited programs within their respective municipalities, if they so desire.

8. SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS

- **The Commission has concluded that hospital services are primarily a provincial responsibility.**

- **The Commission recommends that the Saskatchewan Hospital Services Plan continue to fund 100% of the cost of services which it deems to be appropriate for each hospital, based on the expenditures which it deems to be sufficient to finance those services.**

- **The Commission recommends that the property tax not be used as a primary or major source of funding for hospitals.**

- **The Commission recommends that hospital boards continue to have the authority to provide hospital services additional to those which are approved and funded by the provincial government.**

- **The Commission recommends that any additional services provided by hospital boards above the provincially defined level, as well as expenditures above the approved level for the provincially defined level of services continue to be financed from local sources.**

- **The Commission recommends that all municipalities be required to be a member of a union hospital district or a district which supports a Crown or religious/not-for-profit hospital.**

- **The Commission recommends that local property tax levies by a hospital board be subject to the approval of a numerical majority of municipalities, and by municipalities representing a majority of the assessment base in the district.**

- **The Commission recommends that religious/not-for-profit hospitals have access to the local property tax base on the same basis as union hospitals. That is, they should have the right to requisition funds, but the requisition must be approved by the municipalities in the district.**

- **The Commission recommends that the current practices of financing capital expenditures from a combination of provincial grants and local contributions be continued.**

- **The Commission recommends that the Public Health Levy be eliminated.**

- **In regard to the public health programs delivered by the cities of Saskatoon and Regina, the Commission recommends that the provincial government increase its grants to levels which reflect the cost of services delivered through the Community Health Services Branch of the Department of Health to residents of other municipalities in the province.**

- **The Commission recommends that the Saskatchewan Assistance Plan Levy be discontinued.**

- **The Commission recommends that as an ultimate objective, district health authorities be developed to plan and rationalize the health delivery system and:**
  - **— That there be renewed effort at working toward coterminality of boundaries of agencies delivering health programs; and**
  - **— That district health planning bodies be established to focus on planning for health programs at the local level.**

PART VI

LIBRARY GOVERNANCE AND FINANCE

This Part addresses the issues concerning the governance and financing of library services in Saskatchewan.

LIBRARY GOVERNANCE AND FINANCING

1. BACKGROUND

Public library services in Saskatchewan are provided by a three-tiered system. The Saskatchewan Library (formerly called the Provincial Library) is the first tier. It performs a co-ordinating role of library services on a provincial perspective, and provides a supporting role to other libraries by maintaining specialized collections of material. Regional libraries are organizations which are independent from the Saskatchewan Library and from each other and are responsible for co-ordinating and providing service to the public in the majority of municipalities. The third tier consists of municipal and local branch libraries which provide direct services on a decentralized basis.

The public library system in Saskatchewan consists of 2 large municipal libraries in Regina and Saskatoon[1], 7 regional libraries, and 6 local libraries in the Northern Administration District.[2] The 7 regional libraries have 293 local branch libraries and other service mechanisms such as bookmobiles, book deposits and mail delivery of books.[3]

The public library system has undergone some fundamental changes in the past two decades. In 1967, there were 10 municipal libraries in the cities, 47 municipal and 22 community libraries in towns and villages, and 2 regional libraries. These libraries were quite independent and received limited provincial funding.

In 1967, a Library Inquiry Committee proposed a "one province library system" which would consist of an expansion of the regional library system, resulting in a reduction in the number of municipal libraries. In the ensuing years, five new regional libraries were established, incorporating the municipal and community libraries which existed previously.

In 1984, the public libraries (excluding the northern libraries) had expenditures of $18.6 million[4], which represents an average annual rate of increase of 15.6% since 1971. Of this amount, regional libraries had expenditures of $7.3 million and the municipal libraries had expenditures of $11.4 million. Northern libraries had expenditures of $91,716 in 1984.

2. REGIONAL LIBRARIES

Each of the 7 regional libraries is governed by a board consisting of persons appointed by the councils of participating municipalities and other local entities (including Indian Bands, Bible Colleges, a penetentiary, etc.). Each participating municipality is allowed to appoint one member to the board, and an additional member for each 5,000 population. This results in relatively large regional library boards, usually of more than 100 members.[5] Therefore, at the annual meeting, the board elects a smaller executive committee to direct the operations of the regional library for the next year.

Each municipality participating in a regional library also must appoint a local library board. The local library board which consists of 3 to 15 members, must also include the municipality's representatives on the regional library board. The responsibilities of the local library board include interpreting and implementing policies of the regional library board, developing policy respecting the operation of the local branch library, advising the municipality on library matters, liaison with the local public regarding library services, and the general administration of the local library.

Municipal participation in a regional library is voluntary in that membership in a library region is by agreement signed by both the municipality and the regional library board. A municipal council may participate by passing a bylaw or it may be obligated to participate by petition and approval of the electors.

The operations of a regional library are governed by an agreement between the library and the participating municipalities and other local entities. The agreements are generally for a three year term, with an automatic extension clause. The agreements outline the powers of the library board, how the executive committee will be established, the nature of the library facilities, the funding arrangements, and the method by which a municipality can withdraw from participating in the regional library.

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[1] Lloydminster, which previously operated a municipal library, joined the Lakeland Regional Library in April, 1986.

[2] This includes the Town of Creighton which receives service through the Flin Flon Public Library.

[3] See Appendix VI-1.

[4] Excludes expenditures related to the operation of local branch libraries. See Appendix I-15.

[5] See Appendix VI-1.

A municipality can withdraw from the regional library after giving two years notice. A city that withdraws can receive funding directly from the Province, but towns, villages, and rural municipalities do not receive provincial funding if they withdraw from a regional library. In 1984, there were 67 municipalities not participating in regional libraries. Of these, 48 were urban municipalities and 19 were rural municipalities. In 1984, municipalities participating in a regional library accounted for 94% of the population of potential member municipalities.

Municipalities use the withdrawal notice provisions as a means of expressing dissatisfaction with their regional library when they believe that this is required. In 1984, there were 17 notices of withdrawal in effect, representing a total population of 26,951. While there have been a number of notices of withdrawal given over the past few years, the majority have either not actually withdrawn or have subsequently rejoined their regional library.

Regional library budgets are presented at the annual meeting by their respective executive committees and are voted on at that time by all appointees to the board. The board then submits a requisition to each participating municipality. The agreements between the regional library and its participating municipalities set out how the required local funding will be raised from each municipality. Each municipality's share is generally a per capita levy, set out in the agreement. Generally, the per capita amounts are different for villages, towns and cities, and rural municipalities.[6] The "host" municipality of a local branch library, is also responsible for capital and facility maintenance costs in addition to the per capita levy requisitioned by the regional library.

Regional libraries do not have direct access to a local tax base and do not levy taxes in the usual sense of the word "levy". Rather, they determine the level of local contributions they believe are required and allocate the requirement among municipalities according to per capita amounts which often vary according to the type and size of municipality. This local allocation formula is developed and approved by each regional library board and is somewhat different in each of the regions.

Recent legislative amendments require that where a municipality contributes more than 25% of the total municipal levy for the regional library, it can negotiate the annual increase in its levy with the regional board. This provision is helpful to larger urban municipalities which now have more control over the funding they must provide to the regional library. The role of the Minister's advisory board (Saskatchewan Library Board) was strengthened in the recent amendments to the legislation so that it can assist in resolving disputes between regional boards and municipalities.

The operating expenditures for regional libraries totalled $7.3 million in 1984, representing a compound average annual rate of change of 18.3% since 1971. The revenue of regional libraries is primarily from provincial grants and local levies. In 1984, provincial grants totalled $4.4 million (60.6% of total revenue) and local levies amounted to $2.7 million (36.7% of total revenue).[7]

Between 1971 and 1975, the local levies had decreased as a percentage of total revenue from a high of 35.4% to a low of 25.0% in 1975. Since 1975, local levies have been increasing as a proportion of total revenue.[8]

Municipal contributions in the form of local levies totalled $2.7 million in 1984, which is equivalent to an average of 1.5 mills on the equalized assessment of participating municipalities. The mill rate equivalency ranged from 0.7 mills in the Wheatland Region to 2.9 mills in the Wapiti Region.[9] On a per capita basis, the local levies ranged from $2.60 in the Wheatland region to $7.56 in the Palliser Region, and averaged $4.54 per capita.

The category of "other miscellaneous income" includes items such as interest income, fines, fees, etc.. This local source of revenue amounted to $194,656 in 1984, or 2.7% of the total operating revenues.[10]

3. MUNICIPAL LIBRARIES

The municipal libraries located in the cities of Regina and Saskatoon, differ from the libraries located in the other nine cities in that they are not members of regional library districts. In addition to providing library services to their residents, the Regina and Saskatoon libraries also function as resource centres for the regional library system.

The municipal libraries are the responsibility of the local city councils and are governed by boards appointed by the city councils. Regina and Saskatoon each has a board consisting of nine members.

Municipal library boards set their budgets, and present to city council a request for the funding they require from local sources. City council makes the final decision as to how much local funding the library should receive, but they have traditionally agreed to the library boards' requests. The amount required locally can either be raised as a part of the municipal mill rate, or it can be levied as a separate mill rate. Both Regina and Saskatoon follow the latter approach.

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[6] See Appendix VI-2 for a summary of the 1984 levies.

[7] See Appendices I-16 and I-18.

[8] See Appendix I-18.

[9] See Appendix VI-3.

[10] See Appendix I-16.

The municipal libraries had total expenditures of $11.4 million in 1984. This represented a compound average annual increase of 14.2% since 1971.[11]

Grants provided to Regina and Saskatoon were originally intended not as a primary source of funding but, rather, to allow the libraries to develop additional collections and services designated as province-wide library resources. The Saskatchewan Library has also contracted with the Regina and Saskatoon libraries to provide film resources to the other libraries. The municipal library budgets include the cost of capital and facility maintenance. These costs are not included in regional library budgets, since they are borne directly by the individual "host" municipal councils. In 1984, the provincial grants to the 3 municipal libraries (including Lloydminster) were $976,434, which represented 8.4% of the total operating revenues for these libraries.

Local levies for the municipal libraries totalled $10.3 million in 1984, which represented 89.0% of total revenues.[12] On a per capita basis, the library levy ranged from a low of $5.56 in Lloydminster to a high of $37.13 in Regina. On the basis of equalized assessment, the local levies in 1984 equalled 1.5 mills in Lloydminster, 9.6 mills in Saskatoon, and 14.2 mills in Regina.[13]

4. NORTHERN LIBRARIES

In 1984, there were 6 northern municipalities served by libraries. The town of Creighton was provided service through the Flin Flon Public Library. In Ile a la Crosse, Pelican Narrows, La Loche and Buffalo Narrows the public library was amalgamated with the school library. Only La Ronge had a separate public library.

The Saskatchewan Library provides these northern libraries with library materials and professional advisory support. Residents who live in northern communities without any form of library service may borrow materials directly from the Saskatchewan Library.

The northern libraries had expenditures of $91,716 in 1984.They received provincial grants of $15,980 (17.1% of total revenues) and received local contributions of $77,065 (82.7% of total revenues).

5. SASKATCHEWAN LIBRARY

The Saskatchewan Library is a provincial government body which has responsibility for central library services such as cataloguing and interprovincial library loans. Although the Saskatchewan Library administers the library grants and acts as a co-ordinating agency for public libraries in Saskatchewan, it does not have governing power over regional and municipal libraries. Public libraries are independent from the Saskatchewan Library.

In the fiscal year 1984-85, the Saskatchewan Library had total expenditures of $7.6 million. 70.8% of these expenditures were used for grants to municipal and regional libraries. The remaining expenditures were for operational services such as administration (4.6%), professional services (16.0%), and technical services (8.7%). Professional services include the co-ordination of inter-library loans and resource sharing, as well as the provision of a central collection of library materials. The technical services provided by the Saskatchewan Library include the purchase and processing of all Saskatchewan Library materials and the centralized cataloguing service to regional libraries.

To facilitate the co-ordinating function, the Minister responsible for the Saskatchewan Library has an advisory board (Saskatchewan Library Board) which can make recommendations to the Minister regarding the co-ordination of library services and the various library boards in the province. The advisory board also assists regions and municipalities to settle any disputes where mediation has failed. This advisory board has the following membership:

- 1 from each regional library board;
- 1 from each of Regina and Saskatoon libraries;
- 1 from a northern library;
- 1 from each of S.A.R.M. and S.U.M.A.;
- 1 from C.N.I.B.; and
- 1 Saskatchewan francophone.

6. PROVINCIAL GRANTS TO LIBRARIES

A. Historical Development

In 1984, provincial grants to libraries totalled $5.4 million of which $4,393,655, or 81.8% of the total grants, was provided to regional libraries and $976,434 or 18.2% was provided to municipal libraries. Since 1971, the provincial grant to regional libraries has increased at a compound average annual rate of 17.9%, and the grant to municipal libraries has increased by 17.1% per year. Both of these rates of increase are higher than the rate of increase of total library expenditures which was 15.6% per year.

Provincial grants to libraries have undergone several major modifications since 1950 when provincial library grants were first introduced. The highlights of the various grant formulas in use over this time period are:

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[11] See Appendix I-15.

[12] See Appendices I-16 and I-18.

[13] See Appendix VI-3.

- 1950 to 1974

  There were per capita establishment grants for the acquisition of materials and capital. These grants rose to $4.00 per capita by the end of 1974.

  There were per capita annual operating grants with different rates for urban and rural population. In 1974, the rates were set at $2.50 per capita.

  Regions with small populations were concerned with the per capita funding because of their contention that there were basic costs incurred by regional libraries regardless of population.

- 1975 to 1981

  There were per capita establishment grants of $8.00 per capita.

  Annual operating grants were composed of:

  - A core grant for common items of materials, staff and vehicles. In 1981, this core grant was $320,000 for each region; and
  - Grants for variations in the size of the region, number of bookmobiles, headquarter grants and equalization grants for population in excess of 40,000.

  Library boards expressed concern regarding their accountability for the conditional grants and the effects of the grants on the independence of public libraries.

- 1982 to Present

  Establishment grants have been discontinued, since all regional libraries had been established.

  Annual grants consist of:

  - A base grant (the previous year's grant per capita x current population); and
  - New monies are distributed on a per capita basis, with weighting to equalize population density, service support and service points.

B. Current Provincial Grants to Libraries

The objectives of the present funding formula have been stated as being:[14]

- To provide public libraries with a major guaranteed source of revenue;
- To encourage municipal participation and financial support for libraries;
- To encourage quality library service;
- To maintain and strengthen local autonomy;
- To reflect regional differences in population, geographic area, assessment and service levels.

Provincial library grants currently provide a base amount equivalent to the same level of funding as provided to each library region in the previous year (on a per capita basis). Any incremental funding over the aggregate level required to provide each regional library with this base amount is distributed by means of the new formula introduced in 1982.

The new funding formula consists of three variables which have equal weighting in determining the distribution of the incremental funding:

- Population density. The population density of the region is compared to the average population density of the province. The effect of this factor is to compensate libraries with a lower than average population density which, as a result, would have relatively higher costs in providing the required services to the residents of the region.
- Financial support. The local per capita requisition expressed in terms of mill rate equivalence for the region is compared to the provincial average. The effect of this factor is to reward library regions whose local requisitions exceed the provincial norm and, thus, encourages the library to maximize its local levies.
- Service points. The number of service points per capita in the region is compared to the provincial average.

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[14] The objectives were outlined in a letter dated March 11, 1982, from the minister-in-charge of libraries.

The region which has a higher than average number of service points receives a credit.

These three factors are averaged and applied to the provincial per capita equivalent of the new monies available for library grants to calculate a region- specific per capita grant.

The provincial grant to regional libraries on a mill rate equivalent basis averaged 2.5 mills in 1984 and ranged from 1.9 mills in the Southeast region to 3.6 mills in the Lakeland region. For municipal libraries, the provincial grant represented an average of 1.1 mills.

On a per capita basis, the provincial grant to regional libraries averaged $7.48, with a low of $6.62 per capita in the Southeast region and a high of $9.73 per capita in the Chinook region. The provincial grant to municipal libraries represented $2.94 per capita.[15]

7. ISSUES AND CONCERNS

A number of issues and concerns have arisen in regard to library services. These issues and concerns fall into two main categories:

- the governance of libraries; and
- the financing of libraries.

A. Governance

Issues regarding the governance of libraries are as follows:

- Accountability of Library Boards

  Some have suggested that the members of the library board are not electorally accountable for the library requisition, even though the requisition is normally part of the municipal tax levy.

- Size of Regional Library Boards

  Some have suggested that the regional library boards are so large that individual representatives on the board have little opportunity for meaningful input into the decisions made by the board.

- Election of Regional Library Boards

  It has been suggested that regional library boards should be elected so that they would be electorally accountable for their requisitions from municipalities, and so that there could be a smaller (and presumably more manageable and effective) library board.

- Municipal Approval of Requisitions

  The Commission has recommended that requisitions by hospital boards be subject to the approval of a majority of the municipalities in the hospital district. The question arises as to whether this requirement should also be implemented for regional library requisitions.

- Voluntary Participation of Municipalities in Regional Libraries

  Some have suggested that all municipalities should be required to belong to a regional library. Others have suggested that the voluntary participation of municipalities is an important principle.

- Assignment of Responsibility for Library Services to School Divisions

  Two types of suggestions have been made in regard to the involvement of school divisions with public library services. One suggestion is simply that school divisions provide the physical facilities that house local libraries, so as to make effective use of community facilities, and minimize overhead costs.Another suggestion is that the entire responsibility for public libraries be assigned to school divisions.

- Provincial/Local Roles

  The question arises as to whether the current respective roles of regional and municipal libraries, on the one hand, and the Saskatchewan Library, on the other hand, are appropriate.

B. Finance

Issues regarding the financing of libraries are as follows:

- Provincial/Local Share of Costs

  The question arises as to whether there is an appropriate sharing of the costs of libraries between library boards and the provincial government.

- Operating Grants Formula

  Questions arise as to the effectiveness of the formulas that are used to distribute provincial grants among individual library boards.

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[15] See Appendix VI-3.

- User Fees

  Issues have arisen as to the effectiveness of user fees as a basis for raising revenues for libraries, and the proportion of costs that should be financed from this source.

- Capital Grants

  Some have suggested that the provincial government should provide capital grants to assist in the provision of physical facilities for local libraries.

8. CONCLUSION AND RECOMMENDATIONS ON LIBRARY GOVERNANCE

A. Governance

The Commission has concluded that the current governance arrangements for libraries in Saskatchewan are generally satisfactory and they are the best among the apparently available options. The Commission believes the current structure is a sound basis for building an even better system of libraries in the future.

Saskatchewan has a very good library system. The two largest cities have the population and resources necessary to operate their own libraries. Other areas of the province with lower concentrations of population are served through a system of co-operative effort. By joining together in a regional library system, municipalities are able to have library services that would not otherwise be possible. The Saskatchewan Library provides services which help to ensure an integrated province-wide library system.

B. Division of Responsibility

The Commission has concluded that the division of responsibilities among the Saskatchewan Library, the two large municipal libraries, the regional libraries, and the branch libraries is appropriate.

The Commission believes it is appropriate for the Saskatchewan Library to perform the roles of central cataloguing, providing linkages to library resources outside the Province, distributing provincial grants among the libraries, and providing a general leadership role in the co-ordination of library services in the province. It is also valuable to have the two large municipal libraries serve as resource centres for the regional library system. The regional libraries perform roles which individual branch libraries cannot efficiently provide.

C. Accountability

The Commission believes that the governance structure for libraries provides for less than ideal accountability of regional library boards to the taxpayers, but has concluded that the arrangements are the best of the options which are available.

The fact that regional library boards have the authority to requisition funds from municipalities without being held directly accountable to the public through an electoral process is not an ideal circumstance in a democratic society. However, certain arrangements compensate for this circumstance. The fact that budgets are voted on at an annual meeting of members of the board at which all representatives of municipalities are able to attend is important, because it provides an indirect form of accountability through those municipal representatives. The fact that individual municipalities are able to withdraw from the regional library system ensures that regional library boards must endeavour to reflect a general consensus among municipalities in regard to budgetary matters.

D. Election of Library Boards

The Commission recommends that the current method of selecting members of regional library boards be retained and that regional library boards not be chosen through elections.

The Commission also concluded that while the size of the regional library board is large and administratively cumbersome, representation from all participating municipalities is the best of the available options for the governance of the regional library system.

The election of regional library boards would have the advantage of boards being electorally accountable for requisitions, budgetary decisions in general, and the overall operation of the regional library system.However, the Commission believes that there are two negative consequences which would outweigh the advantages:

- For elections to be meaningful, there would have to be a smaller number of board members. While this would provide for a more administratively efficient board, it would also reduce the voice of individual municipalities on the board. Most board members would have to represent residents in several municipalities covering a wide geographic area.

- Elections would be an additional administrative and financial load.

E. Approval of Regional Library Budgets

The Commission recommends that regional library budgets continue to be approved at the annual meeting of board members, rather than requiring that they be formally approved by a majority of the participating municipalities.

The Commission has recommended that levies by hospital boards be subject to the approval of the municipalities in the district. The question arises as to whether the same approach should be applied to regional libraries.

The library regions are much larger than existing and proposed hospital districts. The Commission believes that it is desirable that those who vote on a budget be present at a meeting where all of the considerations going into the proposed budget can be explained. It is feasible and practical to have such a meeting for a hospital district, but the numbers of municipalities involved and the travelling distances involved would make it impractical for application to library regions. The Commission believes that the current approach of having representatives vote on the budget at the annual meeting is more practical.

The Commission also believes that municipalities can take measures to make effective use of their representative on the the regional library board. Care could be taken to sure that the representative is fully advised of the views and concerns of the municipality before the meeting, in the event that the representative is not a member of the municipal council. A full reporting of the annual meeting to the council could also be arranged, so as to maximize two-way communication between the library board and the regional library and the municipality.

The ability to opt out of the region also provides a means for a municipality to exert its influence in regard to the financial affairs of the regional library.

In short, while there are some theoretical advantages to requiring formal approval of regional library budgets by participating municipalities, the Commission believes that the current practice is more practical.

F. Optional or Mandatory Participation

The Commission recommends that participation in regional libraries continue to be optional.

There would be some advantage to having complete participation of all municipalities in library regions. It would produce less financial uncertainty, facilitate long-term planning, and resolve current issues relating to the terms and conditions under which residents of non-participating municipalities receive library services.

However, the Commission notes that while libraries are highly desirable, they are not essential public services in the same sense as hospitals and, for this reason, compulsory participation does not have the same merit as it does for hospital districts. The Commission believes that it should be up to each municipality to decide whether or not it wishes to provide library services to its residents.

Voluntary participation and the opting-out provision are significant features of the checks and balances operating within the current regional library system.They serve to compensate for the absence of direct electoral accountability of the regional library boards.

If participation were made compulsory, it would strengthen the argument for requiring formal approval of regional library requisitions by the majority of municipalities.

G. School Divisions

The Commission recommends that the responsibility for public libraries continue to be vested in library boards as opposed to assigning the responsibility to school divisions.

Those who favour having school divisons assume the responsibility for public libraries use several arguments:

- The physical facilities in the school can be better utilized and overall overhead for community facilities could be reduced if public libraries were housed in schools.

- There are libraries in schools and the expertise available in the operation of school libraries could be applied to the operation of the public libraries, thereby making more efficient use of professional resources.

- By placing the local financing of libraries in the hands of school divisions, electoral accountability for local library levies or requisitions would be assured.

- It has also been suggested that the present regional library boards be retained, but that the responsibility for the operation of branch libraries be vested with school divisions or local boards of trustees.

Those who are not in favour of the foregoing arrangements make the following arguments:

- School divisions and public library boards serve different clientele which use library facilities for different purposes, use different resources, and use the facilities at different times of the day and week. As a result, there is little opportunity of efficiently using the same professional staff for both purposes.

- School facilities are normally not located where the library would be convenient for public use. Public libraries in central locations would be better used than public libraries located in a school.

- The public is reluctant to enter school buildings. Housing public libraries in a school building would reduce utilization of the library.

- The primary purpose of school divisions is to meet the needs of elementary and secondary education. Public libraries would not be a directly related function and public libraries would tend to get insufficient attention within schools.

The Commission does not preclude the fact that in some specific circumstances it may be desirable for school boards to assume responsibility for library services or for public libraries to be housed in school facilities. For example, this may be appropriate in certain parts of Northern Saskatchewan.

At the present time, the Commission believes that the arguments against combining public and school libraries outweigh the arguments in favour of the change.However, pilot projects and other forms of experimentation for improving the delivery of library service should be encouraged.

9. CONCLUSIONS AND RECOMMENDATIONS ON LIBRARY FINANCING

A. Provincial/Local Share of Costs - Regional Libraries

The Commission has concluded that the current overall provincial/local share of the costs of operating regional libraries is acceptable.

The Commission has reached this conclusion on the basis of the following facts:

- In recent years, regional library levies have amounted to the equivalent of approximately 1.5 mills on the local tax base. This level of local contribution is modest, even taking into account the additional costs in some municipalities of providing the branch library. The Commission believes that this level of local contribution to libraries does not pose a hardship on any participating municipalities.

- On a per capita basis, total public library expenditures in Saskatchewan exceed the expenditures in both Manitoba and Alberta.[16] This fact suggests that on a comparative basis, libraries in Saskatchewan do not suffer from lack of funding.

- The provincial government's share of regional library expenditures exceeds the share provided to regional libraries in either Alberta or Manitoba.[17]

- Saskatchewan spends 0.24% of its provincial budget on library services compared with 0.11% in Alberta and 0.09% in Manitoba.[18]

In its submissions to the Commission, the Saskatchewan Library Trustees Association stated that provincial grants should be increased to 70% of the previous year's total operating budget. The Commission believes that there is no rationale for 70% provincial funding, and the need for it is not apparent.

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[16] See Appendix VI-6.
[17] See Appendix VI-6.
[18] See Appendix VI-6.

B. Provincial/Local Share of Costs - Municipal Libraries

The Commission has concluded that relative to regional libraries, the municipal libraries in Saskatoon and Regina receive insufficient funding from the provincial government, and recommends, as an interim measure, that they each receive the equivalent of approximately $3 per capita in additional grants.

In 1984, provincial grants to regional libraries amounted to the equivalent of $7.48 per capita, compared to $2.94 per capita for the municipal libraries. In terms of mill equivalents, the 1984 grants amounted to 2.5 mills for regional libraries and 1.1 mills for the municipal libraries.

Provincial grants to regional libraries were required to provide sufficient inducement for their establishment and ongoing operation. Grants for the Regina and Saskatoon municipal libraries, on the other hand, were not originally intended to be a primary source of funding. Instead, they were intended to assist those libraries with additional collections and services that would serve other libraries in the province.

Regardless of how the current grants came into being, the Commission believes there should be equity in the levels provided to the municipal libraries compared with the regional libraries.

The Commission believes that the equivalent of approximately $3 per capita in additional funding for each of the municipal libraries would be appropriate. This additional funding should be regarded as an interim level of funding pending the development of a new provincial grant formula to be discussed later in this chapter. The additional $3 per capita would provide the municipal libraries with close to $6 per capita, while the regional libraries currently receive the equivalent of an average of about $7.50 per capita. The Commission believes that regional libraries are justified in receiving somewhat higher grants because they do not enjoy the economies of scale that the libraries in the cities of Saskatoon and Regina enjoy.

In 1984, the local levies for the municipal libraries averaged 11.3 mills or the equivalent of $31.08 per capita. This is much higher than the average levy for regional libraries which averaged the equivalent of 1.5 mills or $4.54 per capita.[19] Even with the proposed increase in grants to the Saskatoon and Regina libraries, the local library levies for the 2 municipal libraries would still exceed the levies in the regional libraries. This would not be inequitable, however, because the levels of library services in Saskatoon and Regina are considerably higher than they are elsewhere in the province. Local residents should be expected to pay higher levels of taxation if they desire higher levels of services.

C. Foundation Grant Formula

The Commission recommends that a foundation grant formula replace the current funding formulas for regional and municipal library services in Saskatchewan.

1) Critique of the Present Formula

The Commission has examined the present provincial grant formula and the allocation of provincial grant monies, and has identified several flaws:

- The current allocation of monies is the cumulative result of several distribution formulas - each of which had different objectives. By protecting the current allocation of funds, any inequities in the allocation will remain and will be lessened only in relative terms with the allocation of additional funds. It is difficult to measure the success of the provincial grants because specific objectives do not exist for an allocation created by a series of formulas and methodologies.
- Under the foundation grant formula for school divisions, the equalization grant formula for rural municipalities and the foundation grant for urban municipalities, there is an objective basis for determining a reasonable level of expenditure required by each of the local authorities. These reasonable expenditure requirements either directly or indirectly reflect common standards or levels of services in each of the local government jurisdictions. These expenditure requirements provide a sound starting point for the

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[19] See Appendix VI-3.

construction of a funding formula. It provides provincial authorities with the ability to make judgments on the level of expenditures which the provincial government should support and the level of local financial input which should be expected. In short, objectively based estimates of standard expenditure requirements have proven to be a useful focal point around which funding formulas for other local authorities have been successfully structured.

On the other hand, no methods have been developed and utilized for determining, on an objective basis, a reasonable level of expenditure for the various library boards. The absence of such data for library services means that a critical starting point for a sound funding formula is missing.

- While the stated objectives behind the present funding formula are valid, they are very general. Additional objectives of greater specificity are required if they are to be of use in structuring a funding formula. At present, the objectives do not contain answers to fundamental questions such as the following:
  - — What level(s) of library standards and services should the provincial government support?
  - — Is it an objective to have a funding formula which enables similar levels of local financial input for similar levels of service? Should library boards, which have higher costs than other library boards in providing a similar level of service, be required to have a higher local financial input in meeting those costs?
  - — On what basis should the amount of local input which each library board should be expected to contribute toward meeting local costs be determined?
- One of the three factors which is considered in the incremental funding formula is the service support component. As the relative level of local funding increases, the weighting in the formula increases. In other words, a regional library has the ability to increase its share of provincial grants and reduce the share of other regional libraries, simply by deciding to increase spending at a faster rate than other regional libraries. The Commission believes that this type of incentive to spend additional amounts is not appropriate for inclusion in a funding formula.
- Another of the factors is the ratio of service points. For this factor all service points, regardless of the services provided, are considered equally in developing a measure which provides an incentive to making library services accessible. This factor is less than desirable because it does not distinguish between low service/low cost options (such as "bookmobiles"), and alternatives such as branch libraries. It also provides a disincentive to use mail services as a means of providing services because they do not involve service points, and do not generate grant support.

Some might also concluded that the current allocation of grants discriminates against the less wealthy regions relative to the more wealthy regions. In 1984, local levies in the 4 least wealthy regions represented $5.68 per capita or the equivalent of 2.2 mills as compared to the local levies in the 3 most wealthy regions where they represented $3.07 per capita or the equivalent of 0.9 mills.[20] If it could be assumed that library services were of a similar level in each region, then the foregoing might lead to a conclusion that there is an inequity in the current distribution of grants. However, the Commission believes the current lack of data by which to confidently measure levels of service and the levels of expenditures that would be required to attain standard levels of service, precludes reaching a definite conclusion on this matter.

2) Proposal for a New Grant Formula

The Commission has evaluated several

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[20] Wealth is defined in terms of assessment per capita. See Appendix VI-4.

examples of foundation formulas, including the Education Foundation Grant and Urban and Rural Revenue Sharing, which are based on the concept of equalization. The Commission has concluded that the concept of equalization is fundamentally sound. The Commission also believes the same approach to providing provincial grants to libraries, with modifications to meet the needs of library services, is one which should be adopted by the Saskatchewan Library.

The Commission has not developed a specific formula, but has set out the possible basic components of a funding formula. The proposed library foundation grant[21]1 would consist of two basic components:

i) Objectively determined operating expenditure requirement for each regional library.

   Officials of the Saskatchewan Library, which is responsible for administering library grants, would determine what services should be recognized on a provincial basis, what the costs of these services would be and what factors should be considered in recognizing a variance of costs among the regions.The determination of expenditure requirements for the purpose of calculating grants would not be an incursion into the responsibility and authority of library boards. Library boards would have the authority to deviate from the recognized expenditure levels, and establish whatever level and type of services they desired because the recognized amounts would only be used in calculating the provincial grant.

ii) Objectively determined amounts which each regional library can be expected to raise from local sources.

   These measures of local financial input would only be used for the purpose of calculating grants and regional libraries would be able to establish local revenue levels they desired.Although there are different ways the local financial input could be calculated, the Commission believes that more support exists for a "per capita" approach.

The provincial grant to a library board would be the difference between the operating expenditures required and the amount which library boards can reasonably be expected to raise from local sources.

The formula could be applied to both regional libraries and municipal libraries.

A grandfathering provision should be implemented to ensure that no library board suffers an undue loss as a result of the change in formulas.

The advantages of the Commission's proposed library grant structures are:

- The recognized level of expenditures would contain region-specific factors affecting the costs of delivering library services.
- The formula would make it possible to achieve greater equality in levels of services and in the level of local input required to meet the required expenditures.
- The provincial grant would remain as an unconditional grant, thus preserving the independence to allocate the available funding to meet the priorities of the specific region. The regional libraries would retain the authority to supplement the provincial grants with local revenues to the extent that they consider to be necessary or desirable.
- The provincial contribution to library services would be based on standard levels of service. It would not be an open-ended cost sharing arrangement which creates inappropriate incentives for regions to escalate their expenses but, instead, would be neutral in this respect.

D. User Fees

The Commission recommends that user fees not be relied upon as a major source of funding for libraries.

Public libraries provide a wide range of services, some of which are readily available from other sources in the community or which might be regarded as being on the periphery of the mandate of public libraries. Some of these types of services are currently being subsidized by public funds, while others are financed, at least in part, by user charges.

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[21] See Appendix VI-5 for a full description of the proposed structure of the provincial library grants.

Some suggest that user fees and charges could be used more extensively in the public library system for these peripheral types of services. They suggest that this would create additional funds for libraries to supplement the public funds libraries currently receive, and would more fairly allocate the costs of operating the library.

The S.L.T.A. strongly opposes the erosion of the concept of universal access. It is argued that user charges for traditional library services deny citizens equal access to information and, because library services are of value to society as a whole, they should be financed by public funds.

The Commission believes that the current practices of some libraries in Saskatchewan to charge for the use of certain services which are readily available from other sources in the community or which are only a peripheral responsibility of libraries should be continued. Modest charges for obtaining a library card should also be considered.

However, in accordance with the principle of universal access to services which are deemed to have broad societal benefits, the Commission believes that fees or user charges should be used sparingly as a source of funding for library services.

E. Capital Grants

The Commission recommends municipalities should continue to be responsible for the provision of capital facilities for libraries, and that there should be no conditional capital grants for libraries.

At the present time, there are no capital grants provided under the provincial library grant system.Individual municipalities are responsible for the acquisition and maintenance of facilities housing branch or municipal libraries. However, individual municipalities have access to provincial capital grants, including the Cultural and Recreational Facilities Grants and the Provincial Capital Fund, which the community could use for library capital purposes, if it wished. To date, few municipalities have allocated funds for library facilities. As of December 31, 1985, only 14 of 802 requests for funding under the Cultural and Recreational Facilities Grants Program were for library purposes.

The Commission believes it is appropriate for individual municipalities to remain responsible for the provision of the physical facilities necessary to house branch and municipal libraries. The Commission also believes that it is appropriate for individual municipalities to set their own priorities in terms of their capital requirements. The Commission believes that apart from certain specific types of situations, it is preferable to have unconditional capital grants for municipalities so that the grant system does not create an incentive for one type of capital project over another.

10. SUMMARY OF CONCLUSIONS/ RECOMMENDATIONS

The Commission reached a number of conclusions and made the following recommendations concerning the governance of libraries:

- **That the current governance arrangements for libraries are generally satisfactory.**
- **That the division of responsibilities among the three-tiered library system is appropriate.**
- **Although the governance structure for regional libraries provides for less than ideal accountability to taxpayers, the arrangements are the best of the available alternatives.**
- **That the current method of selecting members of regional library boards be retained.**
- **That the regional library budget continue to be approved at an annual board meeting.**
- **That the participation in regional libraries should continue to be optional rather than be made compulsory.**
- **That the responsibility for public libraries should continue to be vested in library boards, rather than be assigned to school divisions.**

The Commission also reached a number of conclusions and made the following recommendations regarding the financing of libraries:

- **That the current overall provincial/local share of operating costs for regional libraries is acceptable.**

- That relative to regional libraries, the municipal libraries in Regina and Saskatoon receive insufficient provincial funding and that, as an interim measure, provincial grants to each of these municipal libraries should be increased by approximately $3 per capita.

- That a foundation grant formula should be developed to replace the current funding formula. The current funding formula has several flaws which need to be resolved. The proposed library grant formula would consist of objectively determined operating expenditure requirements for each regional library and objectively determined amounts each regional library can be expected to finance locally.

- That user fees should not be relied upon as a major source of funding for libraries.

- That the current approach to finance capital requirements should continue, rather than developing a conditional capital grant for libraries.

PART VII

FINANCIAL INTERRELATIONSHIPS

Part VII outlines the financial interrelationships among the recommendations made in Parts II to VI of this report. The benefits and costs of either implementing the recommendations separately, or as an integrated package, are summarized.

FINANCIAL INTERRELATIONSHIPS

In Parts II to VI, the Commission set forth recommendations which will serve to reform numerous aspects of the fiscal relationships between the provincial government and local governments. A number of the recommendations entail additional revenues for local governments and additional grants or other payments by the provincial government. A number of these recommendations, in turn, have interrelationships with one another in the sense that implementation of one recommendation may serve to accomplish all or part of the objectives behind another recommendation. They are also interrelated in the sense that different sequences for implementing them require different levels of resources to accomplish.

The Commission outlines these interrelationships because there are two main ways in which the Commission's recommendations may be considered:

- The recommendations may be considered individually; or
- Certain groups of recommendations may be considered as a package.

The Commission is drawing attention to the interrelationships of various elements of provincial/local fiscal arrangements so that the recommendations can be implemented as a package if desired, and so that the implications of proceeding with the recommendations in certain sequences are understood.

In this Part, the Commission deals only with those recommendations which have implications for revenues of local governments and payments by the provincial government. Other recommendations which do not have incremental financial implications are excluded from this discussion.

1. BENEFITS AND COSTS OF CERTAIN REFORMS

A number of recommendations made by the Commission to this point in the report would provide a financial benefit for either urban or rural municipalities, school divisions, or those who pay property taxes. These recommendations would, in turn, entail an additional cost for the provincial government. These recommendations and their respective benefits and costs, assuming each of the recommendations were implemented separately and without regard to interrelationships among them, are outlined in Table VII-1.

The benefits and costs of the recommendations outlined in Table VII-1 amount to $88.6 million. Of this amount, rural property taxpayers would receive an estimated $30.8 million in benefits and urban property taxpayers would receive an estimated $57.8 million in benefits.

2. INTERRELATIONSHIPS

As noted earlier, Table VII-1 shows benefits and costs of implementing a number of recommendations by considering each recommendation separately and apart from the others. However, implementation of one recommendation may assist in achieving all or a part of the objectives of a different recommendation. For example, consider the following three recommendations:

1) The addition of sufficient monies to the urban revenue sharing pool for distribution through the foundation formula in order to achieve full equalization:

   $17.0 million

2) The payment of grants-in-lieu of taxes on property of the provincial government:

   Municipal portion for urban municipalities $ 6.8 million

3) The payment of property taxes by universities and colleges:

   Municipal portion for urban municipalities $ 4.8 million

There are two main objectives behind recommendations 1) to 3):

- Recommendation 1) is intended to bring about full equalization in the urban revenue sharing distribution formula without, at the same time, having excessive reductions in revenues to individual urban municipalities.
- Recommendations 2), and 3) are intended to broaden the local property tax base and

TABLE VII-1
BENEFITS AND COSTS OF RECOMMENDATIONS NO INTERRELATIONSHIPS CONSIDERED
($ million)

Item[1]	Benefits[2]		Costs[3]
	Rural	Urban	
1. Municipal Portion of Grants-in-Lieu of Taxes on Provincial Government Property[4]	$ 1.2	$ 6.8	$ 8.0
2. School Portion of Grants-in-Lieu of Taxes on Provincial Government Property[4]	$ 3.5	$ 6.3	$ 9.8
3. Removal of Tax Exemptions for Universities and Colleges:			
• Municipal Portion	—	$ 4.8	$ 4.8[5]
• School Portion	$ 2.1	3.8	5.9[5]
4. Full Equalization in Formulas Distributing Provincial Payments to Local Governments:			
• Rural Revenue Sharing	$13.0		$13.0
• Urban Revenue Sharing	—	$17.0	$17.0
• Education Foundation Formula	$ 7.2	$16.3	$23.5
5. Removal of Public Health and Social Assistance Levies	$ 0.4	$ 1.8	$ 2.2
6. Improve Funding of Municipal Libraries	—	$ 1.0	$ 1.0
7. New Rural Capital Fund	$ 3.4	—	$ 3.4
TOTAL	$30.8	$57.8	$88.6

provide for a more equitable distribution of the tax load within the respective communities.

The benefits and costs of broadening the local tax base and providing for a more equitable distribution of the tax load (recommendations 2 and 3 above) is $11.6 million. Implementation of these recommendations would result in the injection of an additional $11.6 million into urban municipal revenues. At the same time, it is noted that an injection of $17.0 million in additional revenue is required in order to achieve the first objective, full equalization in urban revenue sharing. If $5.4 million were added to the urban revenue sharing pool this, in combination with recommendations 2) and 3) would provide the $17.0 million of additional monies required to bring about full equalization with minimal losses in overall revenues to individual municipalities.

It does not matter which way the increase in revenue comes about, either through an expansion to the local tax base or through direct increases in the revenue sharing pool, in order for full equalization to be achieved without excessive losses in payments to individual municipalities.

The adjustments to the foundation formula would work in such a way that some municipalities would have both an increase in grants-in-lieu of taxes and an increase in foundation grants.Other municipalities would receive an increase in grants-in-lieu of taxes and a decrease in foundation grants. None would suffer an excessive overall decline in revenue from these combined sources, but those that are now receiving insufficient equalization would receive an overall increase in revenues.

Taken individually, the 3 recommendations would have total benefits and costs of $28.6 million. Awareness of the interrelationships among recommendations, however, can result in the achievement of the same objectives behind the 3 recommendations with total benefits and costs of $17.0 million.

In short, awareness of the interrelationships among recommendations and how one recommendation may assist in achieving the objectives behind other recommendations, can maximize the potential for achieving a broader range of objectives with a given amount of additional revenues and expenditures.

3. AN INTEGRATED PACKAGE

One way of considering the Commission's recommendations is to deal with them individually without taking into account the interrelationships among them. An integrated package of recommendations can also be considered taking into account their interrelationships. This section deals with this integrated package.

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[1] See Appendix VII-1 for explanation of individual items in this table. These items cover only those recommendations made in Parts II to VI and do not include, for example, the proposed income-related property tax credit for property taxes which was recommended in an earlier report.

[2] The benefits are either in terms of increases in revenues to rural or urban municipal governments respectively, or in terms of alleviation of the tax burden on those who now pay property taxes in urban and rural municipalities respectively by virtue of payment of taxes or grants-in-lieu of taxes in respect of property on which no payments are currently made.

[3] These are the costs of the respective reforms to the provincial government.

[4] Includes grants-in-lieu of taxes on Saskatchewan Power Corporation commercial property, for which the combined municipal and school portions would be approximately $2.1 million. Although the grant-in-lieu of taxes paid by S.P.C. is listed as a cost to the provincial government, presumably S.P.C. would recover the cost through its rate structure.

[5] These are listed as costs to the provincial government because the Commission has recommended that the provincial government take the additional cost of taxes into account in arriving at its annual grants to the universities and colleges, so as to avoid the imposition of an additional financial burden on those institutions.

The integrated package is outlined in Table VII-2. By considering the fact that grants-in-lieu of taxes on provincial government property and the payment of taxes by universities and colleges can be used to assist in the process of providing full equalization for school divisions and municipalities with acceptable overall losses of revenue to individual local governments, the overall benefits and costs associated with the integrated package total $60.1 million. This compares with a total of $88.6 million if the recommendations were all implemented separately.

For current property taxpayers, that portion of the package which relates to operating (non-capital) revenues amounts to the equivalent of a reduction of about 20 mills in rural and urban municipalities, or about 9% on average in property taxes. About 8 mills of these reductions are accounted for by school divisions. Strengthening the local tax base and reforms to the mechanisms for distributing provincial payments to municipalities from the provincial government were the main objectives behind the recommendations, not a reduction in the rates of

TABLE VII-2

BENEFITS AND COSTS OF RECOMMENDATIONS CONSIDERING INTERRELATIONSHIPS AMONG RECOMMENDATIONS

($ million)

Item[1]	Benefits[2]		Costs[3]
	Rural	Urban	
Objectives for Municipalities: • Broaden Municipal Property Tax Base • Provide Full Equalization in Funding of Municipalities			
1. Grants-in-Lieu of Taxes on Provincial Government Property (Municipal Portion)	$ 1.2	$ 6.8	$ 8.0
2. Taxes on Universities and Colleges (Municipal Portion)	—	4.8	4.8
Sub-Total(Broadening Municipal Property Tax Base)	$ 1.2	$11.6	$12.8
3. Addition to Revenue Sharing Pools to Provide Balance of Monies Required for Full Equalization	11.8	5.4	17.2
Sub-Total Monies Required to Broaden Municipal Property Tax Base **and** Achieve Full Equalization in Municipal Funding	**$13.0**	**$17.0**	**$30.0**
Objectives for School Divisions: • Broaden School Property Tax Base • Provide Full Equalization in Funding of School Divisions			
4. Grants-in-Lieu of Taxes on Provincial Government Property (School Portion)	$ 3.5	$ 6.3	$ 9.8
5. Taxes on Universities and Colleges (School Portion)	2.1	3.8	5.9
Sub-Total (Broadening School Property Tax Base)	$ 5.6	$10.1	$15.7
6. Addition to Foundation Grants to Provide Balance of Monies Required for Full Equalization	1.6	6.2	7.8
Sub-Total Monies Required to Broaden School Property Tax Base **and** Achieve Full Equalization in Funding School Divisions	**$ 7.2**	**$16.3**	**$23.5**
Objective: Eliminate Inappropriate Provincial Levies For Public Health and Social Services			
7. Removal of Public Health and Social Service Levies	$ 0.4	$ 1.8	$ 2.2
Objective: Provide a More Appropriate Level of Funding for Municipal Libraries			
8. Increased Funding for Municipal Libraries	—	1.0	1.0
Objective: Provide New Capital Fund to Meet Rural Municipal Capital Needs			
9. New Rural Municipal Capital Fund	$ 3.4	—	3.4
TOTAL (To Achieve All Objectives Listed Above)	**$24.0**	**$36.1**	**$60.1**

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[1] See Appendix VII-2 for explanations of individual items.
[2] See explanations pertaining to Table VII-1.
[3] See explanations pertaining to Table VII-1.

property taxes, but they do have the effect of reducing the current property tax load.

The Commission recommends that the integrated package be adopted for two main reasons:

- It achieves the objectives behind the recommendations in a more cost-effective way.
- It achieves a reasonable balance in terms of overall benefits to property taxpayers in urban and rural municipalities.

4. PHASING AND SEQUENCE

There are a number of ways in which components of the Commission's recommendations could be phased in over a period of years if this proved to be desirable or necessary. Some possibilities in this regard are:

- Grants-in-lieu of taxes on provincial government property could be paid in regard to municipal tax levies in one year and in a subsequent year they could be extended to include the levies of other local governments, or vice versa.
- The tax exemption of universities and colleges could be eliminated for municipal taxation in one year and in respect of other forms of local government taxation in a subsequent year, or vice versa.
- Grants-in-lieu of taxes could be paid on provincial government property in one year and the exemptions for the property of universities and colleges could be eliminated in a subsequent year.
- Adjustments to provide full equalization in the municipal and school funding formulas could be made over a period of years.

It should be noted that any decisions to limit the payment of grants-in-lieu of taxes or the removal of exemptions would correspondingly increase the amount required to bring about full equalization in the formula used to distribute monies to municipalities and school divisions. It would represent the loss or postponement of an opportunity to "kill two birds with one stone".

The choice of sequence of implementing the recommendations can have an impact on the level of resources necessary to implement the recommendations. For example, if the provincial government first provided injections of monies into school grants and the municipal revenue sharing pools in order to achieve the objectives of equalization then, in a subsequent year or years, provided for the payment of grants-in-lieu of taxes on provincial government property and removed the property tax exemption for universities and colleges to achieve the objective of strengthening the local tax base, it would require more in overall resources for two reasons:

- The additional revenues received by local governments through grants-in-lieu of taxes and elimination of certain exemptions, could not be used as an offset against the monies required to be injected into revenue sharing and school grants to achieve equalization.
- The payment of grants-in-lieu of taxes on provincial government properties and removal of exemptions on university and college property, in and of itself, would predominantly benefit urban municipalities and urban taxpayers. To prevent a decrease in the urban tax load relative to the rural tax load, a corresponding injection would have to be made into the rural revenue sharing pool.

5. OVERALL PRIORITIES

The Commission strongly recommends that the provincial government act to both strengthen the local tax base and provide equalization in the funding of school divisons and municipalities.

However, if it came to a choice between implementing new policies on grants-in-lieu of taxes and exemptions versus implementing full equalization by the addition of monies to school grants and the municipal revenue sharing pools, the Commission would place a higher priority on the latter. While strengthening the local tax base is important, equalization is of more importance in having greater fairness in levels of services and levels of taxes. Full equalization can compensate for variations in the local tax base, even those variations caused by the lack of grants-in-lieu of taxes on public property in certain communities. On the other hand, except in the case of a few local governments, the payment of grants-in-lieu of taxes cannot compensate for the inequalities arising out of variations in the size of the local tax bases among local governments.

6. SUMMARY

The recommendations summarized in this Part have dealt primarily with strengthening the local tax base, improving equalization in the distribution of provincial payments among local governments, and improving fairness in certain areas.The recommendations have the effect of bringing about a reduction in the level of property taxes for current property taxpayers, even though this was not the objective behind the recommendations.

Options dealing specifically with the question of the appropriate level of property taxation are dealt with in Part VIII of this report.

The additional financial implications of the Commission's recommendations total $88.6 million if viewed independently and separately. However, there are financial interrelationships in provincial-local government financial arrangements which should be recognized and which have implications for a number of the Commission's recommendation.

An integrated package of recommendations totalling $60.1 million would achieve the same objectives while recognizing these financial interrelationships.

PART VIII

RELIANCE ON THE PROPERTY TAX AND PROVINCIAL FUNDING

In Part VIII, the Commission examines a number of options which would achieve a sizeable reduction in the reliance on the property tax. The Commission identifies possible provincial sources of revenue to finance the Commission's recommendations or to bring about further reductions in the reliance on the property tax. The Commission also addresses the issue of urban/rural balance of property taxation.

RELIANCE ON THE PROPERTY TAX AND PROVINCIAL FUNDING

1. BACKGROUND

The Commission has made numerous recommendations in this report and the three earlier reports to improve fairness in the financing of local governments. In particular, the Commission has:

- Recommended major reforms to the system of property assessments.
- Recommended major changes to the local tax base, including the payment of grants-in-lieu of taxes on property of the provincial government, the removal of a number of exemptions from property taxation, and changes in the system of business taxation.
- Recommended major changes and improvements to the distribution of provincial payments among local governments to remove current inequities and enable comparable local governments to provide comparable services at comparable local tax rates.
- Recommended new capital funding arrangements for rural and urban municipalities.
- Recommended an income-related property tax credit to address the regressivity of the property tax for those with low incomes and to compensate for its lack of sensitivity to changes in ability to pay.

The objectives behind these recommendations were to improve fairness in the distribution of provincial monies among local governments, improve equity in the distribution of the tax load among property taxpayers and strengthen the local tax base, rather than to reduce rates of property taxation. Nevertheless, the effect of the Commission's recommendations is also to reduce property tax rates by about 9% and to reduce the net level of per capita property taxation below the national average.

Under the scenario envisaged in the Commission's recommendations, there would be greatly improved fairness in the distribution of the tax load and the overall level of property taxes would not be out-of-line.

By virtue of having addressed numerous issues relating to fairness in the distribution of the property tax load, many of the concerns that have led some to urge that property taxes be reduced, have been dealt with. The Commission does not believe that additional measures are required to reduce the overall level of property taxation. Nevertheless, the Commission recognizes that others may come to different conclusions. It is in this context that the Commission has examined a number of options which would achieve a sizeable reduction in the reliance on the property tax for certain types of local governments and, hence, a reduction in the overall reliance on property taxes.

Sections 2 to 5, inclusive, deal with the possibilities of different levels of property taxation for the different types of local governments. Section 6 deals with rebate programs which do not affect the gross level of property taxes, but which do impact on the net level of property taxation. Section 7 deals with alternative provincial sources of revenue that could be used to finance the Commission's recommendations, or to bring about further reductions in the reliance on the property tax. Section 8 deals with the question of the relative tax loads of property taxpayers in rural and urban municipalities. The Commission's conclusions are set out in section 9.

2. OPTIONS FOR PROVINCIAL FUNDING OF SCHOOL DIVISIONS

In this section, the Commission examines a number of options for using provincial sources of revenue to reduce the current degree of reliance on the property tax through changes in the funding of education.

The Commission presents these options for two specific reasons:

- There has been considerable controversy surrounding the funding of elementary and secondary education and a number of options have been suggested by various groups and individuals. This alone makes it appropriate for the Commission to identify and analyze the options.

- The Cabinet Committee to which the Commission submits its reports has asked the Commission to examine a broad range of options that the provincial government can consider, rather than concentrate solely on the particular options that are recommended by the Commission. In this way, the provincial government would be in a better position to evaluate the potential directions it could pursue.

Obviously there are options under which greater reliance could be placed on the property tax for funding education than is now the case. The Commission believes that while the analysis of such options might be of academic interest, it would be of little other value. Accordingly, the Commission has not analyzed these particular options in this report.

In Part III, Chapter Four, the Commission reviewed the school foundation grant formula under which provincial government monies are allocated among school divisions. The Commission concluded that there was a general consensus that the formula was based on sound principles and did not require changes to its basic structure. The Commission did make recommendations for certain changes to the formula, including those which are required to bring about full equalization, but these did not impact upon the essential nature of the formula. In whatever level of school funding is envisaged in the various options identified in this chapter, it is assumed that the monies will be distributed among school divisions by the foundation grant formula.

A. Concerns with Present Funding

To provide further background for the discussion of funding options, the Commission makes some observations about some concerns in regard to the current funding of school divisions.

1) Expenditures by School Divisions

Some concerns have been expressed about the rate of increase in expenditures of school divisions.

The compound average annual rate of increase in expenditures from 1971 to 1984 was 13.3% for urban municipalities, 11.5% for school divisions, and 9.4% for rural municipalities.In other words, school divisions increased their expenditures at a higher rate than rural municipalities, but at a lower rate than urban municipalities.[1]

There was a shift in the pattern of rates of change in expenditures in the 5 year period 1980 to 1984, inclusive, compared with the immediately preceding 5 years. From 1975 to 1979, inclusive, the average yearly increase was 18.5% for urban municipalities; 13.2% for school divisions, and 11.1% for rural municipalities. As with the overall 1971 to 1984 period, school divisions increased expenditures at a higher rate than rural municipalities, but at a lower rate than urban municipalities. From 1980 to 1984, inclusive, the average yearly increase was 11.1% for school divisions, 9.5% for urban municipalities, and 7.7% for rural municipalities. In the most recent 5 year period, the average rate of increase in school division expenditures has exceeded that of both urban and rural municipalities.

The differences among the rates of increase in expenditures of these three types of local government cannot readily be used as a basis for making evaluative commentary. Each has a different set of responsibilities. The public expectations and requirements for services differ with respect to each. The proportions of costs that are relatively fixed as opposed to being realistically subject to annual change, vary as well. The Commission simply points out that the rates of increase in expenditures by school division have raised concerns with some people.

Others have expressed concern in regard to the level of expenditures on education in Saskatchewan in comparison with other provinces. In 1982, the most recent year for which reliable interprovincial data are available, Saskatchewan school divisions spent less per pupil on elementary and secondary education than school divisions in all other provinces, with the exception of the Atlantic provinces.[2] Some suggest that this is a positive indication of the thrift and efficiency with which Saskatchewan school divisions operate the school system. Others suggest that this points out an inadequate priority for education in Saskatchewan and that there should be a higher level of expenditure.

2) Mill Rates

In 1985, the weighted average mill rate[3] was 111.7 mills for school divisions, 98.1 for urban municipalities, and 84.8 for rural municipalities. From 1971 to 1985, mill rates had increased by a compound annual rate of 7.1% for school divisions, 6.7% for urban municipalities, and 7.9% for rural municipalities.[4]

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[1] See Appendix VIII-1.

[2] See Appendix III-29.

[3] Based on equalized assessments.

If one compares the average mill rates for the 6 year period of the 1980's (1980 to 1985 inclusive) with the average mill rates for the immediately preceding 6 year period (1974 to 1979 inclusive), the increase was 70.8% for school divisions, 62.5% for rural municipalities, and 46.9% for urban municipalities.[5] It is apparent that there was a shift in the pattern of mill rate changes in the 1980's. While in the previous decade school divisions had mill rate increases which were higher than rural municipalities but lower than urban municipalities, in the 1980's increases in school mill rates were significantly higher than for either rural or urban municipalities.

It is also significant that in the 6 year period in the 1970's, the average school mill rate was 3% lower than the average urban municipal mill rate, while in the 6 year period in the 1980's, the school mill rate exceeded the urban rate by 12%. In the 1970's, the average school mill rate exceeded the average rural municipal rate by 22%, while in the 1980's, the excess had grown to 28%.

Some municipal officials, as reflected in the official positions taken by S.U.M.A. and S.A.R.M., have been concerned, in principle, with any portion of education being funded from the property tax. Other municipal officials believe that schools should have access to the property tax, but that the provincial government should finance a much larger proportion of school costs, thereby enabling the school mill rate to be much lower. These viewpoints have arisen partly from a concern about the fairness of the property tax and a perception that it is being relied upon too extensively, and partly because of a concern that use of the property tax base by school divisions limits the utilization of the property tax base by municipalities. The fact that the average school mill rate exceeds the average municipal mill rate and the fact that the gap has been growing in recent years, serve to intensify those viewpoints.

Some school officials have also been concerned about the extent to which school mill rates have risen. This has given rise to proposals from the S.S.T.A., individual school divisions, and the Saskatchewan Teachers' Federation, that provincial grants should finance a larger proportion of expenditures by school divisions. In response to proposals by S.U.M.A. and S.A.R.M. to have education entirely removed from the property tax, the S.S.T.A. has indicated that it is prepared to live with a provincial government share as high as 75%.

3) Provincial Share of Costs

In 1976, provincial grants to school divisions accounted for 56.7% of total school division revenues but, by 1984, this had fallen by 8 percentage points.[6]

From 1972 to 1978, the percentage increase in grants to schools exceeded the percentage increase in overall school revenues in every year, except one (1977). Beginning in 1979, on the other hand, the percentage increase in grants was lower than the overall percentage increase in school revenue, for 6 successive years.[7]

The decline in the provincial share of elementary and secondary education revenues in the past number of years has been one of the main causes of school mill rate increases exceeding the increases in municipal mill rates. School officials have expressed concern about the decline in the share of revenues covered by school grants, and have pressed for a restoration of the earlier share. Others have urged that grants should be increased on average to cover anywhere from 60% to 80% of school revenues.

4) Surpluses

From time to time, it has been suggested that school divisions are accumulating surpluses in excess of those which are required and that, accordingly, an unnecessary burden has been created for the local property taxpayer.

As of December 31, 1984, school divisions had accumulated reserves of $44.9 million. This is equivalent to 6.4% of total operating expenditures by school divisions for 1984, and 14.0% of the net proceeds from taxes and grants-in-lieu of taxes for the same year.[8]

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[4] See Appendix VIII-2.
[5] See Appendix VIII-3.
[6] See Appendix VIII-4.
[7] See Appendix VIII-5.

From 1971 to 1984, inclusive, yearly surpluses averaged 0.9% of the local "net levy" for taxes and grants-in-lieu of taxes, and 0.4% of operating expenditures.[9]

School division surpluses are relatively small in relation to local taxes and grants-in-lieu of taxes, and in relation to annual expenditures. They are considerably smaller in both absolute and relative terms compared to urban and rural municipalities.

Surpluses (or deficits) may arise as a result of actual revenues or expenditures differing from budgeted amounts. Local governments may also decide to build reserves to provide "working capital" to minimize the amount of borrowing which must be done pending the receipt of taxes or grants, or to provide some security in the event that there is difficulty in collecting taxes in a particular year. One might expect surpluses to be accumulated during relatively economically buoyant times and for either those surpluses to be drawn down or at least not added to during difficult economic times. However, no such pattern is evident for either school divisions or municipalities in aggregate.

B. Options for Funding Levels

The school funding options considered in this section include:

- Maintaining the present level of funding to school divisions.
- Increasing provincial funding from its present average level of about 51% of school division revenues to higher levels, including the possibility of an average of 75% or 80%.
- Increase school grants in order to lower school mill rates to the average municipal level(s).

It should be noted that the integrated package of recommendations set out in Part VII would have the effect of lowering school mill rates by about 8 mills, due to a combination of increases in school foundation grants, the payment of grants-in-lieu of taxes on provincial government property, and the removal of exemptions for university/college property. The effect of the increase in foundation grants of $23.5 million would be to increase the provincial share of total school revenues by 3.2 percentage points.

1) Maintenance of Current Level of Provincial Funding

One option would be for the provincial government to maintain its current level of funding at approximately 51% of the expenditures of school divisions.

If it were concluded that the current overall reliance on the property tax relative to other taxes is not excessive, then it might be argued that the current provincial share of education costs should be maintained. If, on the other hand, it were concluded that the property tax is being utilized too extensively, it would be difficult to defend this option, unless other measures were taken to reduce property taxation.

The fact that the average school mill rate exceeds the average urban municipal mill rate by about 14% and exceeds the average rural municipal mill rate by about 32% is sufficient evidence for many municipal officials and others to conclude that school divisions are occupying too large a portion of the property tax. Some believe that this reduces the ability of the municipalities to have adequate access to the property tax. Others feel that the property tax is not sufficiently fair for it to be relied upon to the current extent for combined school and municipal purposes.

The Commission believes that the wide disparity in rural municipal mill rates, which arises because of insufficient equalization in revenue sharing payments, is indirectly responsible for some of the concerns of municipal officials in regard to the current level of school mill rates:[10]

- Some rural municipalities have mill rates which are low relative to the overall average of 94.0 mills.[11] For example, in 1985, 38 rural municipalities had mill rates of 75.0 mills or less.

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[8] See Appendix VIII-6. Comparative data are also provided for urban and rural municipalities.

[9] See Appendices VIII-7 and VIII-8.

[10] All mill rates in this particular analysis are for 1985 and are based on equalized assessments.

[11] The 1985 average rural municipal mill rates amounted to 94.0 mills on the basis of a simple average and 84.8 mills on the basis of a weighted average.

School mill rates which average 112 mills appear excessive in relation to the relative low municipal mill rates.

- Some rural municipalities had mill rates which were high relative to the average of 94.0 mills. For example, in 1985, 28 rural municipalities had mill rates of 120 mills or more. These mill rates, plus an average school mill rate of 112 mills constitute a high overall tax burden. A reduction in school mill rate is often looked to as a means by which a high overall property tax burden can be relieved.

Sentiments similar to those that exist among rural municipalities also exist among urban municipalities. There are also wide variations in urban municipal mill rates, although much of that variation is accounted for by different sizes of municipalities and different levels of services.

The integrated package of recommendations set out by the Commission in section 3 of Part VII would have the effect of permitting a reduction of an average of 8 mills in school mill rates and a reduction of an average of 12 mills in municipal mill rates. In relation to 1985 mill rates, this would leave the average mill rate for school divisions an average of 31 mills higher than for rural municipalities and 18 mills higher than for urban municipalities.[12] The disparity among rural municipal mill rates and among urban municipal mill rates could also be rectified under the integrated package, and this could be expected to lessen some elements of the concerns among municipalities about school mill rates.

2) 75% Provincial Funding of Education

BACKGROUND

As noted earlier, upward pressures on mill rates and a decline over several years of the percentage of school division revenues accounted for by the provincial government, have led some to suggest that the provincial government should finance a larger percentage of the costs of elementary and secondary education. Some have suggested that provincial government grants should be in the range of an average of 75% to 80% of school division revenues.

The need to explore the possibility of the provincial government financing an average of 75% to 80% of education expenditures was one of the major recommendations in the September, 1985 interim report of the Commission, **Alternative Local Sources of Revenue and Utilization of the Property Tax Base.**

Provincial operating grants to school divisions in 1985 amounted to approximately $368 million, which is approximately 51% of total school board revenues of $723 million.[13] In order for the provincial government's share of costs to rise to 75%, an increase in provincial grants of approximately $174 million would be required. If this were done, school mill rates could be reduced from their 1985 average level of approximately 112 mills to approximately 53 mills.[14]

The Commission analyzed the distribution of grants among school divisions assuming grants were raised to an average of 75%. The 1985 foundation formula was used in computing the distribution of grants with 3 exceptions:

- Recognized expenditures were increased to make the aggregate recognition equal to the aggregate actual expenditure projected by school divisions for 1985. To do this, the basic and incremental per pupil rates were increased by 11.5%.

- The retirement of debentures and capital debt and the replenishment of reserves used in approved capital projects were included in recognized expenditures in the foundation formula. It was assumed that grant support for these items

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[12] Based on weighted averages.

[13] Includes data for school divisions formerly under the Department of Northern Saskatchewan.

[14] The mill rates are based on 1985 equalized assessments.

These figures ignore the effects of the integrated package of recommendations described in Part VII. If it were assumed that the provincial government adopted the Commission's recommendation to increase the monies in the foundation grant formula by $23.5 million to implement full equalization, the incremental increase in grants to raise the provincial government's share of cost to 75% would be reduced from $174 million to $150.5 million.

(which are part of the operating budget of school divisions) would be counted in determining the amounts necessary to reach 75% provincial funding of operating expenditures.

- The computational mill rate was reduced by 40 mills.

75% FUNDING: SPECIFIC OR GENERAL TARGET

There are two main approaches regarding the 75% provincial funding of education:

i) It could be regarded as a general target only. In individual years, depending on the collective decisions of school divisions regarding their expenditure levels on the one hand and the decision of the provincial government on the level of grants to school divisions on the other hand, the provincial government's share may be either higher or lower than 75%. Over the long term, however, the objective would be for the provincial government to provide approximately 75% of the funding.

ii) It could be regarded as a share of expenditures to which the provincial government is specifically committed to financing each and every year.

The two approaches have quite different implications. Under the second approach, school boards would, in effect, be given a blank cheque by the provincial government. School divisions would be able to spend at any level they desired and the provincial government would be committed to financing an overall average of 75% of the expenditures. Alternatively, the provincial government could place controls on the spending of school divisions so as to ensure that the provincial government would be able to keep its grants to school divisions under control. The Commission believes that neither of these circumstances would be acceptable or desirable within the education community. Either the autonomy of the provincial government or of school divisions would be significantly jeopardized.

Under the first approach, on the other hand, the provincial government would not be required to maintain grants at 75% of total school division revenue or expenditure for each and every year. In some years, for example, school divisions might increase spending at rates in excess of those which the provincial government is prepared to support, in which case, grants would fall below 75% of total revenue, and local tax rates would be higher, accordingly. In other years, the increase in grants may exceed the rate of increase in school division expenditures, and grants would rise as a percentage of overall revenue. The independence of both the provincial government and the school divisions would be preserved under this approach.

In the examination of the 75% provincial funding option, the Commission assumes that the first approach, under which 75% provincial funding is only a general target, is the approach under examination.

IMPACT OF 75% PROVINCIAL FUNDING

Some noteworthy observations in regard to the higher levels of provincial grant are as follows:

- The largest increases in grants go to the most wealthy school divisions. The 10 most wealthy rural school divisions would receive grant increases averaging $1,405 per pupil, while the 10 least wealthy divisions would receive increases averaging $726 per pupil. The most wealthy school divisions would receive increases averaging 99.2%, while the least wealthy divisions would receive increases averaging 26.3%.[15]

  The main objective behind 75% funding of education is to permit a lighter load to be placed on property tax. It takes a larger amount in grants to reduce mill rates in a high-assessed school division than it does in a low-assessed school division; hence, the larger increases would be paid to the more wealthy school divisions.

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[15] See Appendix VIII-9. In its various analyses of impacts of options on "wealthy" and "least wealthy" municipalities, the Commission uses only the rural school divisions organized under the former **The Larger School Units Act,** because this is the most homogeneous group of school divisions that can be used as a basis for comparisons.

See also Appendix VIII-10 which outlines the impact on all school divisions.

- Although the wealthy school divisions would receive a greater increase in grants expressed in dollars per pupil, and in percentage terms, the less wealthy school divisions would receive grant increases equivalent to a greater number of mills than the wealthy school divisions. The same group of most wealthy divisions would receive grant increases equivalent to an average of 51.8 mills, while the least wealthy divisions would receive increases averaging the equivalent of 71.6 mills.

- If all school divisions were to spend at the revised level recognized in the formula (that is, the average budgeted level of expenditure), each school division would essentially be able to balance its budget at 55.5 mills under 75% provincial funding, regardless of its degree of wealth.

  Of course, school divisions would not all choose to spend at the same level, and there would be a variety of surpluses and deficits, capital programs, and rates of discounts and cancellations in relation to the gross levy. As a result, all school mill rates would not, in practice, be 55.5 mills.

- Although grants would amount to an average of 75% of school division expenditures or revenues, there would continue to be variations from this average percentage among individual school divisions. The least wealthy school divisions would continue to receive a higher percentage of their total revenues in the form of grants than would the most wealthy school divisions, although the provincial share would increase by a greater number of percentage points for the most wealthy divisions than for the least wealthy divisions.

  For example, if all divisions retained their budgeted 1985 levels of expenditure, the 10 most wealthy divisions would see the provincial share of their expenditures rise from 33.7% under the current level of grants to 66.3% under 75% provincial funding, an increase of 32.6 percentage points. The 10 least wealthy divisions would see the provincial share of expenditures rise from 67.6% under the current level of grants to 85.2%, an increase of 17.6 percentage points.

- Under the 75% option, the percentage of costs covered by provincial grants would be very high for some divisions. For example, at the 75% average level, if school divisions continued to spend at the budgeted 1985 level, grants would be at or in excess of 85% of expenditures for 5 of the 10 least wealthy rural school divisions and for 1 division grants would be above 95% of its expenditure.[16]

  Most of the school divisions which would have very high percentages of their expenditures covered by provincial grants under the 75% option are those which have been forced to spend less than the average school division in order to keep their mill rates from being too much out of line with other divisions. This problem arose because of the gap between recognized and actual average expenditure, and the proportionately greater negative impact this has on the less wealthy school divisions. If it were assumed that the school divisions disadvantaged under the current recognized expenditure would choose to increase their expenditures up to or closer to the average, the provincial share of expenditure would not be nearly as high. For example, if it were assumed that school divisions all spent at the revised recognized level (actual average expenditure), only 1 of the same group of least wealthy rural school divisions mentioned above would have a provincial grant in excess of 85% of expenditures.[17]

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[16] See Appendix VIII-11 for an outline of the 75% average level of grant as a percentage of 1985 budgeted expenditures for the most wealthy and least wealthy rural divisions. Data showing grants at the 1985 actual level, and the 65% and 80% levels are also shown in the appendix.
Also see Appendix VIII-12 in which the same data in Appendix VIII-11 are shown for all school divisions.

- If school divisions were to retain their 1985 budgeted level of expenditures, several of the less wealthy school divisions would be able to balance their budgets with very low mill rates under 75% provincial funding. For example, 2 of the less wealthy rural school divisions would be able to balance their budgets with less than 20 mills if the provincial government were to finance 75% of costs on average. This situation arises because of the current gap between recognized and average actual expenditures, and the effect this has of forcing some low-assessed school divisions to keep their expenditures considerably below average in order to prevent an unduly high mill rate.

  This phenomenon points out the inequities created by the current gap between recognized and actual expenditures. If these two divisions were to spend at the actual average level, they would require mill rates equal to other divisions.

ARGUMENTS IN FAVOUR OF 75% PROVINCIAL FUNDING

Arguments advanced by those who favour the 75% provincial funding option include:

- Too much reliance is currently being placed on the property tax relative to other forms of taxation. An increase in grants to school divisions is one way of bringing about a substantial reduction in that reliance.

  It is estimated that, in 1985, approximately $634 million was raised in property taxes by all local governments. Increases in provincial grants of $174 million would permit reduction in the total level of property taxes of approximately 27%.

- It would permit school divisions to levy smaller amounts of taxes on property than municipalities, and this would tend to please both school and municipal officials who are concerned with the size of the school levy or the proportion of property taxation accounted for by school levies. School levies of 53 mills would compare with 1985 average mill rates of 98 and 85 for urban and rural municipalities, respectively.

- Property taxes are less fair than other forms of taxation, and a reduction in property taxes in favour of other taxes would, by definition, introduce greater fairness into the overall taxation system.

- School divisions would continue to have access to the property tax and would continue to have the autonomy that comes with access to a local source of revenue.

- It would enable recognized expenditures in the foundation grant formula to be increased to the actual average level and thereby improve the achievement of equalization.[18]

- It would be a concrete step which would facilitate the eventual complete funding of education by the provincial government.

ARGUMENTS AGAINST 75% PROVINCIAL FUNDING

Arguments advanced by those who oppose 75% provincial funding of education include:

- The autonomy of school divisions would be impaired and school divisions would be more highly dependent on the provincial government for their funding. Shortfalls in provincial grants relative to the expectation of school divisions would require higher percentage increases in local mill rates if school divisions wished to maintain their expenditures, but there would be local political constraints against large mill rate increases.

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[17] See Appendix VIII-13 for an outline of the 75% average level of grant as a percentage of revised recognized expenditures for the most wealthy and least wealthy school divisions. Data are also provided in this appendix for the 1985 actual grants and the 65% and 80% levels.

Also, see Appendix VIII-14 in which the same data in Appendix VIII-13 are shown for all school divisions.

[18] Full equalization could be achieved by adding approximately $23.5 million to school grants, considerably less than the $174 million in additional grants entailed in the 75% option.

- If the provincial government paid a higher percentage of education costs, they would be inclined to put more conditions on their funding. This would reduce local flexibility and the ability of school divisions to respond to local needs and desires.

- A reduction of $174 million in school property taxes and a reduction of mill rates by about 60 mills would give a large tax break to large corporations which have extensive property holdings. It is doubtful that other forms of taxation would recoup the property tax reduction they would experience.

- Because of the deductibility of property taxes in the calculation of taxable income under the federal income tax system, a reduction in property taxes would have the effect of increasing taxable income. This would result in higher income taxes being paid, most of which would be a loss to the Saskatchewan economy.

- It would not eliminate the debate over use of the property tax base by school divisions because the municipal organizations have indicated that their objective is the total discontinuation of use of the property tax base by school divisions.

- The provincial government would have to make massive increases in other taxes in order to finance the increase of $174 million in grants, thereby putting those taxes out of line with other provinces.

- The reduction of about 60 mills in property taxation would benefit everyone in proportion to the amount of their business and property assessment, regardless of their ability to pay. If relief from property taxation is required, there are methods available which would more selectively direct the relief at those that require the relief.

SUB-OPTION

Another sub-option for achieving 75% provincial funding of education is for the provincial government to increase its grants to school divisions each year by an amount roughly equivalent to the increase in school division expenditures in that year. In this way, property taxes for education would not be reduced on an absolute basis, but over a period of years, they would cover a decreasing portion of total education revenue, until the point was reached where provincial grants covered 75% of school division revenues.

Those who support achieving 75% provincial financing of education over a period of years would use the following main arguments in favour of it:

- It would be a more practical approach from the standpoint of the provincial government. To finance the $174 million required to reach the 75% funding level in 1 year would be a task of major proportions for the provincial government.

- It would allow the provincial government and school divisions to adjust to the different levels of funding over a period of years.

- It would prevent a reduction in the payment of property taxes on an absolute basis. This would avoid owners of large amounts of property, who can presumably afford to pay their property taxes, from receiving a reduction in their taxes. It would also prevent leakage of monies from the Saskatchewan economy through the income tax system.

Other arguments in favour of this approach would be similar to those identified in the discussion of the "regular" 75% option above.

Those who are against this option would use essentially the same arguments as those identified in the discussion of the "regular" 75% option. They would add, however, that due to the declining purchasing power of the dollar over a period of time, that there would be a reduction in property taxes and a leakage of monies from the Saskatchewan economy through the income tax system in "real" or "constant dollar" terms.

3) Increase School Grants to Lower School Mill Rates to Average Municipal Level(s)

In 1985, the average mill rates in Saskatchewan were 98.1 mills for urban municipalities, 84.8 mills for rural municipalities, and 111.7 mills for school divisions. As noted earlier, the fact that school mill rates exceed municipal mill rates add to the concern that many have regarding the use of the property tax base by school divisions. One option to alleviate these concerns would be to increase grants to school divisions to the point where school divisions would be able to meet their requirements with mill rates equal to the average municipal mill rate.

To enable school divisions to reduce the 1985 mill rates to the urban municipal average, the cost in additional grants would be $39.7 million, and this would increase the provincial government's share of school division revenues from approximately 51% to approximately 56%. For school divisions to be able to reduce their 1985 mill rates to the rural municipal average, an increase of $78.5 million in grants would be required, and this would increase the provincial government's share of total school revenue to approximately 62%.

The cost in additional grants to enable school divisions to reduce their average mill rates to the 1985 overall urban/rural municipal average of 93.3 mills would be $53.7 million and this would increase the provincial government's share of total school revenue to approximately 58%.

As noted in Part VII, the integrated package of recommendations would have the effect of reducing the property tax rates by about 12 mills for urban and rural municipalities and about 8 mills for school divisions. Using 1985 mill rates as a starting point, the new mill rates for urban municipalities, rural municipalities and school divisions, would be approximately 86 mills, 73 mills and 104 mills, respectively. As a result, the differential between municipal and school mill rates would be larger and the cost in grants of lowering school mill rates to municipal levels would increase accordingly.

The increase in grant required to lower the average school mill rate to the different average municipal levels is shown in Table VIII-1.

TABLE VIII-1
GRANTS REQUIRED TO REDUCE SCHOOL DIVISION MILL RATES TO MUNICIPAL AVERAGES*

	Required Increase in Grants** ($ millions)	Provincial % of School Division Revenues***
Before Integrated Package of Recommendations****		
1. Reduce Mill Rate to Urban Municipal Average of 98.1 Mills	$39.7	56.4%
2. Reduce Mill Rate to Rural Municipal Average of 84.8 Mills	78.5	61.7
3. Reduce Mill Rate to Combined Rural/Urban Municipal Average of 93.3 Mills	53.7	58.3
After Integrated Package of Recommendations is Taken Into Account****		
1. Reduce Mill Rate to Urban Municipal Average of 86 Mills	$52.5	58.1%
2. Reduce Mill Rates to Rural Municipal Average of 73 Mills	90.5	63.4
3. Reduce Mill Rates to Urban/Rural Municipal Average of 81.3 Mills	66.2	60.1

Those who would argue against this option would emphasize that it would be unlikely to achieve consensus concerning the use of the property tax base by school divisions. Other arguments pro and con by those who would support and those who would not support the option would be along the same general lines as the arguments in regard to the 75% provincial funding option.

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*The starting points for this table are the 1985 average equalized mill rates of 98.1 mills for urban municipalities, 84.8 mills for rural municipalities, and 111.7 mills for school divisions.

**Assumes no changes in expenditures and that all increases in revenues are passed on in the form of lower mill rates. Increases are over and above the $6.8 million increase in grants to school divisions which is part of the integrated package.

***The 1985 provincial percentage of revenues accounted for by provincial grants was 50.9%. See Appendix VIII-4. The percentages take into account the fact that the integrated package involves an increase of $6.8 million in grants to school divisions.

****The integrated package of recommendations are those set out in Part VII of this report. This would have the effect of reducing municipal mill rates by about 12 mills, and school division mill rates by about 8 mills.

3. RELIANCE ON PROPERTY TAXES AND PROVINCIAL FUNDING OF MUNICIPALITIES

Provincial transfers currently account for about 29% of the total operating revenues of rural municipalities and about 18% of the total revenues of urban municipalities. Considering the fact that school divisions, hospital boards and library boards receive considerably higher percentages of provincial funding, this might suggest to some that municipalities should receive a substantial increase in provincial funding. There are basically three potential reasons for an increase in provincial funding for municipalities:

- If current provincial funding in combination with local sources of revenue were not sufficient to permit municipalities to fulfil their legislated mandates.

  The Commission believes that, on an overall basis, municipalities do have sufficient resources at their disposal to adequately meet their responsibilities.

- If current provincial funding is insufficient to permit a proper amount of equalization in services and local tax effort.

  The Commission concluded in Part III of this report that provincial funding was inadequate to bring about an acceptable amount of equalization. The Commission recommended some adjustments to the formulas used to distribute provincial transfers among local governments and recommended infusion of additional funds. In Part VII of this report, the Commission noted how certain recommendations are interrelated with one another, and how the payment of grants-in-lieu of taxes on certain public property and the removal of tax exemptions on other types of properties would, in combination with increases in the revenue sharing pools, enable full equalization to be brought about. The recommendations summarized as part of the integrated package in Part VII constitute an increase in provincial funding of one type or the other.

- If the current level of reliance on the property tax were excessive.

  The Commission has concluded that, currently, some individuals pay too much in property taxes, and that some local governments are required to tax property too heavily. However, the Commission has made numerous recommendations to correct these inequities and, on an overall basis, the property tax is not being relied upon excessively.

The formulas used to distribute revenue sharing monies to both urban and rural municipalities could be used to equitably implement virtually any higher level of funding if they were amended in accordance with the recommendations set out in Part III.

There are any number of target points in terms of resulting mill rates or in terms of the provincial government's share of total municipal revenues that could be pursued in this connection, and there would be little point in the Commission identifying all of them. One option might be to increase the provincial government's share of operating revenues to 51%, the 1985 provincial share of education costs. If this were done, it would cost the provincial government an additional $31.7 million for rural municipalities and an additional $138.5 million for urban municipalities. Rural municipalities would be able to lower their mill rates from their current (1985) average of 84.8 to 54.8 mills, while urban municipalities could lower their mill rates from their current (1985) average of 98.1 to 23.8 mills.

Another option might be to permit municipal mill rates to drop to a particular target such as 75 mills. This would cost the provincial government $43.0 million for urban municipalities and $10.3 million for rural municipalities. The provincial share of total revenues would rise from 18% to about 28% for urban municipalities and from 29% to about 36% for rural municipalities.

Each of these options would raise obvious questions about rural/urban equity.

From time to time, discussions take place in regard to the nature and level of provincial financial assistance for municipalities. However, the Commission notes that there have been few, if any, questions raised about the appropriateness of utilization of the property tax base by municipalities.

There has also been relatively little concern expressed or issues raised in regard to the level of provincial funding for municipalities. The discussions in this connection have tended to center around school divisions: whether or not they should be using the property tax and what portion of costs should be borne by the provincial government. In short, the level of provincial funding for municipalities has not been a focal point for discussions on the level of reliance on the property tax.

Some have suggested that provincial funding for municipalities should be reduced, that the monies be given instead to school divisions, and that other measures also be taken to provide complete provincial funding of education. The Commission has two major concerns with this possibility:

- Denial of access to the property tax would have negative implications of major proportions for school divisions.
- There are major inequities in the distribution of provincial payments among municipalities. Additions to the rural and urban revenue sharing pools are among the measures required to bring about equality in the funding of municipalities. Reductions in provincial funding, on the other hand, would only serve to exacerbate the effects of the present inadequate level of equalization.

4. RELIANCE ON PROPERTY TAXES AND PROVINCIAL FUNDING OF HOSPITAL BOARDS

Hospital boards currently levy approximately $9.8 million in taxes, and the hospital revenue tax and agreements under **The Hospital Revenue Act** amount to $2.1 million for a total of $11.9 million in property taxes for hospital purposes. While from some perspectives $11.9 million is a substantial amount, it constitutes only about 2% of the total property taxes levied in Saskatchewan.

There are important issues relating to the governance and funding of hospitals which the Commission has addressed in Part V. The Commission has recommended that the property tax not be used as a primary source of funding for hospitals, and that it be used only for what might be termed "residual" funding.

In view of the relatively small amount of property taxes now being levied by hospital boards, it is obvious that hospital funding is not a potential area for achieving a significant impact on lower levels of reliance on the property tax.

5. RELIANCE ON PROPERTY TAXES AND PROVINCIAL FUNDING OF LIBRARY BOARDS

Library boards account for approximately $13 million in property taxes, which approximates only about 2% of the total property tax levy in the province.

The Commission does not believe that the funding of libraries is a major focal point for examining the broad issue of the degree of utilization of the property tax. The Commission dealt with a number of issues pertaining to the governance and funding of libraries in Part VI of this report.

6. REBATES AND RELIANCE ON THE PROPERTY TAX

Other measures have been proposed to address the issue of the level of reliance on the property tax through indirect means. Instead of enabling local governments to reduce the level of property taxes, various measures have been in existence or have been proposed to provide rebates which have the effect of lowering the impact of property taxes indirectly.

A. Income-Based Property Tax Credit

In its January, 1985 Interim Report, (pp. 37 to 41), and again in its September, 1985 report on **Alternative Local Sources of Revenue and Utilization of the Property Tax Base,** (p. 29), the Commission described a system whereby those with low or no incomes could receive a rebate of all or a portion of their property taxes through the income tax system. The lower the income, the higher the rebate. The higher the income, the lower the rebate. In the September, 1985 report, the Commission identified the following arguments in favour of the program:

"1) The property tax is insensitive to changes in the capacity of the property owner to pay those taxes at a particular point in time. The proposed income-based property tax credit will alleviate the burden of property taxes on those whose incomes are chronically low and on those who have experienced short-term reductions in their capacity to pay.

When a person has difficulty in paying property taxes, the payment of a dollar in municipal tax is equally difficult as the payment of a dollar in school tax. Therefore, when relief from property tax is required, the relief must apply to both the municipal and school portions.

2) At the lower end of the income scale, the property tax tends to be regressive because a higher proportion of the incomes of low income-earners usually go toward the payment of property taxes than for higher income-earners. An income-based property tax credit would provide compensation for this deficiency.

3) Selective property tax relief is efficient because it provides assistance only to those who need it. There may be reasons why there should be increased provincial transfer payments to local governments.

> However, as a means of providing relief from property taxes, increased transfers to local governments could be regarded as a less efficient mechanism because the tax would be reduced on all property, whether or not the payer of the property tax requires such relief.
>
> 4) By targetting the tax relief to those with chronically or temporarily low incomes, outflows of monies through the federal income tax system will be minimized. Only those farms and businesses which claim property taxes as business deductions, and pay no income taxes or which have low marginal rates of taxation, would receive the assistance."

The income-based property tax credit would have the advantage of providing relief from both school and municipal taxation. One disadvantage of the program is that property taxes must first be paid and the rebate is not received until the following year, when an income tax statement is filed.

The program can be tailored to practically any cost-target, depending upon the maximum amount of rebate and the rate at which the maximum amount is reduced as income rises.

Another general advantage of the program is that it enables local governments to have the advantages of having access to a substantial local source of revenue on the one hand, while on the other hand a major portion of the inequities associated with that form of taxation can be rectified.

B. Removal of School Property Tax From Farms, Homes, and Small Business, by Rebate

One proposal is to leave direct grants to school divisions at their present level, but to reduce or eliminate the school property tax for selected types of property through a system of rebates.

One option would be to set upper limits on the value of assessment eligible for a rebate, and provide a rebate equal to the average school mill rate on the eligible assessment. The following example will serve to illustrate the principle.

The limits placed on the eligible assessment would be based on the assumption that it is those with the small and medium amounts of property that most require relief from property taxation, and that those with

TABLE VIII-2

EXAMPLE OF REBATE PROGRAM REMOVAL OF COST OF EDUCATION FROM FARMS, HOMES, AND SMALL BUSINESSES

Type of Property	Assessment*	Eligible** Assessment	Average School Mill Rate	Amount of Rebate
Small Farm (4 quarters)***	$ 10,000	$10,000	112 mills	$1,120
Medium Farm (6 quarters)***	15,000	15,000	112 mills	1,680
Large Farm (40 quarters)***	100,000	15,000	112 mills	1,680
Small Home	3,000	3,000	112 mills	336
Medium Home	6,000	6,000	112 mills	672
Large Home	20,000	6,000	112 mills	672
Small Business	8,000	8,000	112 mills	896
Medium Business	12,000	12,000	112 mills	1,344
Large Business	500,000	12,000	112 mills	1,344

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*1985 equalized assessments, not the assessments based on the 1976 (new) manual.

**Eligible assessment would be actual assessment up to a maximum which, in this example, is $15,000 for farms, $6,000 for homes, and $12,000 for businesses.

***Based on an average assessment of $2,500 per quarter section.

relatively large amounts of property are better able to pay their property taxes.

A system like this would work best if there were an overall limit placed on the eligible assessment, in addition to the limits on individual types of property. For example, there might be a limit of $15,000 placed on the eligible assessment from any combination of farm, home or business property. It would also be desirable to apply that limit to the family unit so as to avoid having the limits evaded through placing the property in the ownership of different members of the same family unit.

A system with limits on eligible assessment would have to be administered at the provincial level because many people own property in more than one municipality. Any one individual municipality would have no way of knowing whether or not a person had received a rebate on property owned in another municipality or how much, if any, of the assessment in the municipality was, therefore, eligible for a rebate. The system could be administered along the same lines as the former property improvement grants.

Persons who rent their housing could be allowed to impute a certain amount of property tax based on a percentage of the rent they pay, subject to a maximum.

The amount of rebate would be based on the average school mill rate, not the actual mill rate in the school division. In other words, using the foregoing example, the rebate would be based on 112 mills, regardless of whether the mill rate in a specific school division is 90 mills or 130 mills. In this way, it would continue to be to the financial advantage of the local taxpayer for school mill rates to be established with prudence, and local accountability would be promoted.

The estimate cost of the foregoing example is about $200 million.

Those who favour this type of approach use the following arguments:

- It represents a more "efficient" means of providing relief from property taxation than by increasing direct grants to school divisions. It avoids the reduction of taxes for the owners of larger amounts of property who can, presumably, afford to pay their property taxes.
- When grants to school divisions are used as a means of reducing the school property tax, the school mill rate is reduced on all property in roughly the same proportion. Within a given school division, the large corporation would receive the same percentage reduction in taxes on its property as would the small farmer, senior citizen, or small businessman, meaning that the large corporation would get a much larger reduction in dollars. With a rebate, however, it is possible to be more selective in regard to the amounts and recipients of relief from property taxation.
- It has the effect of permitting the complete elimination of the school property tax in regard to amounts of property within the eligible limits, but preserves the autonomy of school divisions by allowing them to continue to levy local property taxes.
- Based on the experience of the previous property tax rebate programs, it could be administered for less than 1% of the value of the rebate.

Those who are against this type of program use the following arguments:

- Although it is a less expensive means of achieving property tax relief than direct grants to school divisions, it is more expensive than an income-related rebate. Many who receive a rebate would be quite able to afford to continue to pay their property taxes.
- Those with amounts of property in excess of the eligible levels are not necessarily able to pay their property taxes without hardship.
- To qualify for a rebate, taxes must first be paid. This may be a hardship for some.
- The foregoing could be used to partially or completely eliminate the school property tax for the average home, farm and small business, if it were based solely on school costs. However, it would do nothing to eliminate the burden of municipal property taxes. For those who face difficulties in paying their property taxes, a dollar of municipal property tax is no less difficult to pay as a dollar of school tax.

- Farmers and businessmen are able to claim property taxes as an expense in calculating income tax, but are now required to report any rebate as income. Because of the taxation of rebates, the payment of rebates by the provincial government would have the effect of causing income tax payments to the federal government to increase, thereby draining monies from the provincial economy.
- It implicitly assumes that school divisions are not legitimate users of the property tax base and that the only inequities associated with the property tax are those that relate to school property taxes. These assumptions are false.

It should be noted that the previous property improvement grant program was widely criticized by municipal governments on the grounds that the motivations behind it were political, not economic, that it provided monies to many who did not need it, and that it resulted in unnecessary administrative costs. These same criticisms might be directed at the foregoing option.

C. General Rebate Program

Another option is to have a rebate program tied to assessment levels and mill rates, as under the previous option, but which is aimed at reducing property taxes in general, rather than only the education portion of property taxation.

Those who support this option would use the following arguments:

- There is unfairness in both school and municipal property taxes, as well as other property tax levies. A rebate program aimed at relieving all local property taxes reflects this fact.
- The option avoids the implicit argument that any one type of local government has either more or less legitimacy in using the property tax base than other types of local government.

Other arguments in favour and against this option are similar to those that are raised in regard to the rebate program aimed specifically at school property taxes.

7. ALTERNATIVE PROVINCIAL SOURCES OF REVENUE

In the preceding sections in this Part, the Commission has addressed a number of questions pertaining to the reliance on the property tax. An analysis of the appropriate degree of reliance on the property tax is not complete, however, without considering the alternatives to the property tax.

In its interim report, **Alternative Local Sources of Revenue and Utilization of the Property Tax Base,** the Commission concluded that a local source of revenue was of great importance to local governments and that there were no practical local sources of revenue of sufficient magnitude to meet the needs of local governments and replace the property tax.

A broad base of provincial revenue sources is now in use to finance fiscal transfers from the provincial government to local governments. The question arises as to whether there would be merit to increasing the reliance on these taxes, or implementing new provincial taxes, for use in increasing provincial transfers to local governments to permit less reliance on the property tax.

The Commission is not in a position to make specific recommendations on the rates which the provincial government should apply to each tax base. Obviously, the provincial government has many responsibilities in addition to assisting in the funding of local governments. There are many competing demands against the revenue base of the provincial government, and it is only the provincial government which has the mandate to set priorities among all of its responsibilities and to decide on the appropriate mix of taxes to finance those responsibilities.

The Commission is limiting its commentary on alternative provincial sources of revenue to the question of whether there would be some potential for obtaining additional revenues from particular sources from the standpoint of equity and an interprovincial comparison of tax rates.

A. Tax on Motor Vehicle Fuels

The Commission believes there is potential for use of the motor vehicle fuel tax base to assist in the funding of local governments. All provinces in Canada, with the exception of Saskatchewan and Alberta, have a tax of approximately 20% of the retail price of fuels. A sales tax on gasoline and diesel fuel of 1¢ per liter would raise approximately $20 million in revenue.

The fuel tax could be considered as a dedicated tax to finance the proposed urban and rural unconditional capital grant programs. A tax of about 1.2¢ per liter would fund the 2 programs. Much of the capital expenditures of municipalities is transportation-related, and the tax could be looked upon as a user charge for transportation infrastructure. Those who use the transportation infrastructure help to pay for the cost of that infrastructure through the taxes they pay on their motor vehicle fuels. The Commission indicated in an earlier report,[19] and in Part IV of this report, that it would be appropriate to place greater reliance on user charges in certain circumstances.

Use of a dedicated tax to finance the capital funds would have the advantage of providing a means by which the capital payments automatically increase from year to year, as the consumption of fuels increases.

The majority (64%) of the operating expenditures of rural municipalities and a substantial portion (15%) of the operating expenditures of urban municipalities are on transportation. Accordingly, in keeping with the notion of greater reliance on user charges, the fuel tax could be looked upon as a potential source for financing the revenue sharing programs.

B. The Retail Sales Tax

The 5% retail sales tax in Saskatchewan is lower than in any other province with the exception of Alberta which has no retail sales tax. If it were considered desirable to reduce the relative reliance on the property tax, the sales tax would be a possible area of additional provincial taxation which could be used to fund increases in provincial-local government fiscal transfers.

The Commission has a concern in regard to the perennial difficulty of merchants in communities close to the Alberta border being at a competitive disadvantage relative to their Alberta counterparts because of the absence of a sales tax in Alberta. Whatever degree of problem which now exists in this regard would be made somewhat greater by adding another percentage point to the sales tax.

Sales taxes are generally considered to be regressive because they are applied to food and clothing in some jurisdictions in North America. In Saskatchewan, however, both food and clothing (all children's clothing and purchases of other clothing valued at less than $300) are exempt from the sales tax, thereby making it more equitable in relation to other jurisdictions.

C. The Personal Income Tax

The personal income tax rate in Saskatchewan is 50.0% of federal basic tax, plus a 1% flat tax on what is defined as "net income".[20] Because the flat tax is unique to Saskatchewan, it is somewhat difficult to make direct comparisons between Saskatchewan and other provinces in regard to the overall rate of taxation of income. If the net amount of revenue generated from the flat tax were generated from the regular provincial income tax structure, Saskatchewan would have a personal income tax rate of 55.7% of federal basic tax. This would suggest that income is currently being taxed substantially more heavily in Saskatchewan than in any other province west of Quebec.[21] British Columbia, Alberta and Ontario have personal income tax rates of 44%, 43.5%, and 50%, respectively, while the rate in Manitoba is 54%.

Quebec has a considerably higher rate of personal income tax than does Saskatchewan, although a direct and simple comparison is not possible because the Province of Quebec operates its own provincial income tax system independent of the federal system on which all other provinces currently "piggy-back".[22]

The 1986 rates in the Atlantic provinces are: Newfoundland 60.0 %, Prince Edward Island 52.5%, Nova Scotia 56.5%, and New Brunswick 58.0%.

The personal income tax based on progressive rates is generally regarded as the most fair form of taxation, particularly if care is taken to ensure that the system does not have excessive deductions and "loopholes". However, this does not mean that it would be appropriate to eliminate all other taxes and rely exclusively on the one tax that is thought to be most fair. Excessive reliance on the income tax system would create disincentives for saving, investment, and entrepreneurship, and would generally dampen the enthusiasm of individuals in society to increase their incomes.[23] Society, as a whole, would suffer economically because of the negative impact on growth.

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[19] **Alternative Local Sources of Revenue and Utilization of the Property Tax.** Interim Report of the Local Government Finance Commission, September, 1985, p. 26.

[20] See **Alternative Local Sources of Revenue and Utilization of the Property Tax Base,** Interim Report of the Local Government Finance Commission, September, 1985, p. 31 for a description of the Saskatchewan flat tax.

[21] Each province has its own system of special tax credits, deductions and surcharges which mean that the tax impact varies depending on the application of these factors. For example, although Saskatchewan has a relatively high overall rate of personal income tax, its rates for persons on low incomes are among the lowest in Canada.

[22] To give some comparison between Quebec and Saskatchewan income taxes, if it is assumed that a taxpayer, in 1986, has a total income of $35,000 and claims a spouse and two children, he would pay $2,644 in Saskatchewan and $3,352 in Quebec, a difference of 27%. In the September, 1985 Report **Alternative Local Sources of Revenue and Utilization of the Property Tax Base,** the Commission incorrectly reported the amount of tax payable in Quebec as $4,094.

A key concept in this regard is the "marginal rate of taxation". That is, the number of cents that must be paid in additional income tax if a person earns an additional dollar of income. For example, under the progressive income tax system, a person with a low or modest income might pay 20¢ on an additional dollar of income, while a person making a high income might pay 50¢ or more on an additional dollar of income. The question is where the point is reached where the marginal rate of taxation is so high that a person declines to accept a promotion or risk an investment because so much of the anticipated additional income or profit would simply be consumed in additional taxes.

What is not so clear is the precise level of personal income tax at which the negative effects outlined above outweigh the benefits of reliance on what is thought to be the most fair form of taxation. Some would argue that we have already gone beyond that point in Canada as a whole, while others believe that there would be advantage in placing more reliance on income taxes relative to other forms of taxation.

Proponents of a flat tax on personal income[24] may have one or all of the following views:

- Marginal Tax Rates

  Some regard the current marginal tax rates as being too high or, in other words, that when middle or high income earners generate additional income, too much is lost to income taxation. Some question the basic fairness of what they regard as high marginal rates of taxation, while others argue that they impair economic growth by discouraging people from saving, investing, seeking higher paying jobs and, in general, advancing themselves financially. The latter tend to believe that all of society suffers from high marginal rates of taxation, not just those who are directly affected. Those who regard current marginal tax rates as being too high, argue that the flat tax should replace all or a portion of the progressive income tax system.

  Others may not believe that the current marginal rates of taxation are too high, but believe it would be inappropriate to make the rates higher by increasing the current progressive rates.Accordingly, they might argue that if additional income-based taxation is required, the flat tax should be introduced to raise that additional revenue.

- Deductions

  Some believe that there is an excessive number of deductions or loopholes in the current progressive income tax system. Some would argue, in particular, that it is inappropriate that some high income earners pay little or no income tax. The flat tax is intended to avoid this problem by having a minimal number of deductions.

- Complexity

  Some regard the current income tax system as being too complex and promote the flat tax concept as a means of introducing simplicity and understandability into the tax system. A reduction of the complexity of the system would also reduce the cost of administering the system.

- Fairness in Relation to Property Tax

  Some look at the flat tax or tax on basic income not in terms of comparative fairness with the regular progressive income tax nor in terms of its being a replacement of the regular progressive income tax system. Instead, they view it as a means of replacing the property tax for the financing of education and consider its fairness in relationship to the property tax. Specifically, they regard the flat tax as a means of overcoming the regressivity of the property tax at the low end of the income scale, and as overcoming an unduly low contribution by some to the costs of education under the current property tax. They also promote the flat tax or tax on basic income as a means of avoiding what they view as excessive deductions for the wealthy under the current personal income tax system.

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[23] Some argue that current levels of income tax are already creating an "underground, barter" economy designed to escape the effects of the income tax system. Higher levels of personal income tax would intensify the encouragement of the "underground" economy.

[24] S.A.R.M. has proposed a type of flat tax, or a "tax on basic income", to finance education. It is similar in concept to the Saskatchewan flat tax.

The Commission's intent is not to engage in an extensive evaluation of the flat tax or tax on basic income versus the regular progressive income tax system, except to note the following:

i) The current Saskatchewan flat tax has not been promoted as a replacement of the progressive income tax sytem but, instead, as an addition to it. Hence, the flat tax cannot reduce the complexity of the tax system because the "regular" income tax system is still in place, along with all of its complexities.

ii) There are a number of questions regarding the fairness of the current Saskatchewan flat tax, at least in relation to the progressive income tax system. For example, a person who has no dependents pays no more in flat tax than a person with identical income, but with a spouse and several dependent children. Also, a person is currently able to deduct investments in a Registered Retirement Savings Plan, while a person's contributions to a church or charity are not deductible.

iii) There are variations in flat tax schemes and to be fully evaluated, their specific characteristics would have to be analyzed.

Each 1 percentage point of net income yields about $110 million in revenues on a gross basis, and $75.3 million on a net basis, after taking into account the increase in the low income tax reduction and the decrease in the general tax rate from 51% to 50% for 1986. On the other hand, each 1 percentage point of federal basic tax yields approximately $13.2 million in 1986. In other words, there are substantial revenues associated with a flat tax.

Under the terms of the Federal/Provincial Tax Collection Agreements, the provinces which have agreed to let the federal government collect income taxes on their behalf are restricted to working within the federal government's definitions of income and allowable expenses. The provincial government cannot design and implement a flat tax or a tax on basic income that would operate contrary to these definitions of income and allowable expenses, or which would jeopardize the uniformity of the income tax system, and still rely upon the federal government to administer the tax on the province's behalf.

The Commission has substantial concerns about the desirability of a flat tax as a means of replacing or reducing the progressive income tax in a major way.While recognizing that progressivity can be carried to an extreme, the Commission believes that it is appropriate for at least one of the major taxes to be based on the principle of progressivity so as to reflect the greater percentage of discretionary income at higher income levels. Loopholes and excessive deductions in the system can be dealt with without destroying the entire system.

Summary

The fact that taxes on personal income in Saskatchewan are already relatively high would suggest to some that this is not a desirable potential source from which to finance additional payments to local governments.

There is currently much discussion about reforms to the personal income tax system in terms of:

- Broadening the tax base and rationalizing exemptions and deductions from income;
- Reducing the marginal rates of taxation and strengthening work incentives; and
- Simplifying the rules under which taxable income is determined.

The Commission believes that in the context of reforms which may take place in the personal income tax system, there may be greater potential for the use of the source of revenue for the financing of additional payments to local governments.

D. Corporate Income Tax

No other province taxes corporate income for small business at a rate which exceeds Saskatchewan's 10%. Saskatchewan's 17% general corporate income tax rate is the highest in Canada. Each 1 percentage point of taxable income for small business yields $2.6 million, whereas each 1 percentage point under the general category raises approximately $7.1 million in 1986.

Considering the high rates of corporate income tax in Saskatchewan relative to other provinces and the limited amounts which are raised from those sources, the Commission does not view corporate income taxes as a probable source of substantial additional provincial revenue for financing local governments.

E. Resource Revenues

It is projected that Saskatchewan will obtain revenues of approximately $660 million in 1986-87 from resource revenues.

Arriving at an appropriate level of revenues from resources is an extremely complex subject. In addition to the usual objectives of fairness and equity, a broad range of market factors, regulatory objectives, and objectives in regard to investment and development of the various resource industries comes to bear. These matters are all well beyond the mandate of the Commission. It may very well be that general economic and market conditions will permit additional revenues to be obtained from these sources, but their volatility makes them of questionable usefulness as a basis upon which to assist in the funding of local governments.

8. RURAL/URBAN BALANCE

A. Background

One of the major issues that was raised during the Commission's review of the financing of local governments is the rural/urban balance in taxation, or the amount of property taxes paid by taxpayers in rural municipalities, as opposed to those in urban municipalities. While the issue has sometimes been expressed in terms of tax levels in urban and rural municipalities, it would be more accurately described as an issue involving the amount of property taxation paid by farmers as opposed to the amount of property taxation paid by non-farmers.

There are two types of services in respect of which the issue arises:

- Municipal services.

  In this regard, the issue is whether or not farmers pay too much in property taxes relative to others in the same municipality for municipal services. The "others" may include those who are living in a rural municipality in a house located on a small parcel of land ("country residential"), businesses which may be located in the rural municipality, or intensive agricultural operations such as feedlots, piggeries, poultry farms, beekeeping operations, etc..

- Services for which there is property taxation across a number of urban and rural municipal boundaries, and for which a common mill rate is levied on the equalized assessment of both urban and rural properties.

  These are essentially school and hospital services. Regional libraries are financed from both rural and urban municipalities, but the allocations are typically done on the basis of agreed-upon per capita amounts, rather than on the basis of the assessments of the respective municipalities.

In this regard, the issue is both in regard to the level of taxes paid by farmers relative to others in the same municipality, as well as relative to those in other urban and rural municipalities.

The former type of concern has led to a number of reviews of the assessment and taxation of rural improvements. It is included as part of a review of **The Rural Municipality Act** which is also under way at the time of the writing of this report. The Commission has also assembled information and developed a computerized system that will facilitate analysis of options in this regard, as described in Part II, Chapter Five, of this report. In that chapter, the Commission recommended that the data assembled and the methodology developed by the Commission be used by the Saskatchewan Assessment Management Agency in the discharge of its responsibilities in dealing with these and other matters of assessment and policy regarding property tax incidence.

In this particular chapter, the latter type of concern will be analyzed.

B. Overall Per Capita Rates of Taxation

One method of analyzing the rural/urban balance in taxation is to compare the per capita assessment bases of rural municipalities, villages, towns, and cities.

Table VIII-3 sets out the 1981 census population of the various types of municipalities and their total 1985 equalized assessment.

TABLE VIII-3
COMPARISON OF PER CAPITA ASSESSMENTS

Type of Municipality	Population (1981 Census)	1985 Equalized Assessment	1985 Equalized Assessment Per Capita
Cities	462,464	$1,415,443,506	$3,060.66
Towns	156,794	323,864,993	2,065.54
Villages	63,093	123,540,427	1,958.07
Total Urban	682,351	$1,862,848,926	$2,730.04
Rural Municipalities	239,974	1,055,452,319	4,398.19
Total	922,325	$2,918,301,245	$3,164.07

From the foregoing table, it is apparent that the per capita assessment level is substantially higher in rural municipalities than in urban municipalities.[25] If taxed at the same mill rate (which in fact takes place for all municipalities within a school division or a union hospital district), taxpayers in rural municipalities would pay:

- 43.7% more per capita than taxpayers in cities.
- 112.9% more per capita than taxpayers in towns.
- 124.6% more per capita than taxpayers in villages.

C. Specific Farm/Non-Farm Comparisons

1) Farm/Business Comparisons

Another way of analyzing the rural/urban balance is to compare the assessments of farms of various sizes and various soil productivity ratings, with the assessment of urban businesses.

Table VIII-4 shows the 1986 assessment of farms of 4, 6, 8, and 12 quarter sections, at assessed values of $4,500, $5,500, and $7,000 per quarter section, respectively.[26]

Table VIII-5 shows the number of businesses in various assessment categories in two towns, one with a population of approximately 560, and the other with a population of approximately 1,200.

An average-sized farm of 6 quarter sections and with an average assessment of $5,500 per quarter would have a total assessment of $33,000.

Excluding the value of the home owned by the person who owns the business, the following can be noted.

- For the town of approximately 560 population, 27 of the 33 businesses have assessments lower than the $33,000 for the average farm. Of the 6 businesses with assessments in excess of $33,000, 3 are grain elevators.

TABLE VIII-4
1986 AGRICULTURAL LAND ASSESSMENT

Size of Farm	At $4,500/ Q. Sect.	At $5,500/ Q. Sect.	At $7,000/ Q. Sect.
4 Quarter Sections	$18,000	$22,000	$28,000
6 Quarter Sections	27,000	33,000	42,000
8 Quarter Sections	36,000	44,000	56,000
12 Quarter Sections	54,000	66,000	84,000

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[25] See Appendix VIII-15 for a historical series on assessment in urban and rural municipalities, the percentage changes in total assessment from year to year, and assessment in urban and rural municipalities as a percentage of total assessment.

[26] Assessments in Tables VIII-4 and VIII-5 are based on the new (1976) manual.

The median assessment of the businesses was $15,060, less than half the assessment on the average farm.

- For the town of approximately 1,200 population, 42 of the 60 businesses had assessments less than the $33,000 for the average farm. Of the 18 businesses with assessments in excess of $33,000, one was a government establishment and 4 were grain elevators.

The median assessment of the businesses was $15,035, less than half the assessment of the average farm.

Some would argue that since the $33,000 taxable assessment for the farm includes the assessment on both the land and improvements (the latter of which are exempt from taxation), it would be more comparable to compare this with both the business and home of the business owner.

TABLE VIII-5

1986 BUSINESS, LAND, AND IMPROVEMENT ASSESSMENT OF BUSINESSES

	Town of 560		Town of 1,200	
	Number of Businesses		Number of Businesses	
Assessment Category	Without Homes*	With Homes**	Without Homes*	With Homes**
$ 1 - 4,999	3	—	7	—
5,000 - 9,999	7	—	9	—
10,000 - 14,999	6	8	14	12
15,000 - 19,000	5	7	4	12
20,000 - 24,999	3	5	4	10
25,000 - 29,999	3	3	3	3
30,000 - 4,999	—	3	3	4
35,000 - 39,999	1	1	3	2
40,000 - 44,999	1	1	2	4
45,000 - 49,999	—	—	4	1
50,000 - 54,999	1	1	1	4
55,000 - 59,999	—	1	1	2
60,000 and Over	3	3	5	6

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*Assessment of business only.

**Adds assessment of a modest 3 bedroom bungalow on a fully serviced lot with a 50 foot frontage and 120 foot depth to every business. The house would be assessed at $6,675 in the town of 560 population, and $6,825 in the town of 1,200 population.

If one assumes that each of the owners of a business is assumed to own a modest three bedroom bungalow and adds the assessment of the house to the assessed value of the business, somewhat different results are obtained:

- For the town of approximately 560 population, 25 of the 33 business owners would have total home and business assessments less than the $33,000 for the average farm.

  The median total assessment of the businessman would be $21,735, about 66% of the assessment of the average farm.

- For the town of approximately 1,200 population, 40 of the 60 business owners would have total home and business assessments less than the $33,000 for the average farm.

  The median total assessment of the businessman would be $21,860, about 66% of the assessment on the average farm.

2) Farm/Residential Assessment

Another way of analyzing the rural/urban balance is to compare the assessment of farms to residences, assuming the residence is owned and occupied by a salaried or professional person who does not own or rent a business and, therefore, for whom the taxes paid on the residence are the only property tax paid.

Compared with the $33,000 assessment of an average farm, the assessment of a modest 3 bedroom bungalow with a fully serviced lot, 50 feet frontage and 120 feet of depth would be the following in the various sizes of urban municipalities:

Population Size of Urban Municipality	Assessment of 3 Bedroom Bungalow and Lot
163,000	$11,500
14,700	8,500
4,700	7,450
1,200	6,825
560	6,675

The assessment of the average farm ranges between 3 times and 5 times the assessment of the residence and lot.

The average assessment of apartments on a particular high rise apartment in the City of Regina amounts to $8,299 per unit. This is a better-than-average high rise. The assessment per unit is about one-quarter of the assessment of the average farm.

D. Other Considerations

Other considerations which should be taken into account in evaluating relative tax loads are:

1) The Total Tax System

An overall tax regime works best if there is a variety of taxes, rather than over-reliance on any one form of tax. Currently in Canada, there are taxes on income, taxes on sales, and taxes on wealth (the property tax). In examining the fairness of a tax, it should not be looked at in isolation from other forms of taxation because a particular group in society may pay relatively large amounts of one type of tax, but relatively small amounts of other taxes.

2) Income Tax Deductibility

The deductibility of property taxes by businessmen, farmers, and certain professionals is a factor.

Businesses and farmers can deduct their property taxes from their income in calculating their taxable income for income tax purposes.Wage earners cannot deduct their property taxes. If it is assumed that a business or farmer pays the same amount of property taxes as a wage earner in an urban municipality, then the net effect of deducting property taxes is to reduce the tax liability of the business or the farmer compared to the wage earner.

3) Ability to Pass on Taxes

The ability to pass on property taxes to others is also a factor. In some circumstances, businesses pass on the cost of property taxes to their customers in the same way that other costs are passed on as a means of covering costs and making a profit. In other circumstances, depending on the competitive situation of the business, it may not be possible to pass on those costs.

Farmers have no opportunity to pass on their costs of property taxes because, as individuals, they do not set the price of their product. Depending on the product, prices are set at the provincial, national, or international level, well beyond the influence of an individual farmer. In regard to commodities governed by marketing boards, costs can be taken into account in regulating supplies and influencing or controlling prices. For commodities such as grains, where prices are set in international markets, there is no opportunity to pass on these costs.

These circumstances also need to be taken into account in arriving at an evaluation of relative tax loads.

4) Ability to Influence Tax Levels

Occasionally, certain businesses find themselves located in areas where market prices of land have risen and where their rents and property taxes have risen as well. In some cases, these increases in costs are such that the business cannot be sustained in that area, and the business must be moved to a location with lower land values and lower property taxes.

Some businesses can be moved with less cost than for others. Those businesses that are able to move are able, through this process, to influence the level of taxes they pay.

Farmers, on the other hand, are obviously unable to change the location of the environment (the land base) from which they conduct their business.

5) Value of Property

Since property taxes are a tax on one form of wealth, namely property, the market value of property should be considered in any comparison between urban and rural tax loads. The greater the value of the property or asset, the greater the assumed wealth or ability to pay property taxes.

6) Interpretation of Per Capita Amounts

The Commission believes that per capita amounts can be misleading and must be supplemented by other analyses before conclusions can be reached. Other factors that need to be taken into account are:

- Location of Residence

  Many farmers have their residence in an urban municipality and they are considered urban residents for census purposes. This has the effect of overstating the rural per capita assessments and tax levies.

  On the other hand, many who have businesses or work in an urban municipality live in a rural municipality. This has the effect of overstating the urban per capita assessments and tax levies.

  The relationship between these two phenomena need to be considered as part of the process of reaching conclusions.

- Content of Total Assessment

  Obviously, not all rural municipal assessment is farmland. In 1971, assessment of farmland accounted for 80.9% of total assessment in rural municipalities, but by 1983, this had declined to 73.7%.[27] This suggests that farmers are paying a declining share of rural property taxes. These trends need to be taken into account in an analysis of respective tax loads on farmers and non-farmers.

- Amount of Property

  The relative amounts of property is also a factor. For example, if all the property in a municipality were owned by one individual, it would mean a very high per capita level of assessment and taxation, but these high per capita amounts would not necessarily be considered unfair. The amount or value of property on which taxes are being paid should also be taken into account.

E. Summary

It is the responsibility of the new Saskatchewan Assessment Management Agency, as it was with the previous Saskatchewan Assessment Authority, to make decisions on the weightings to be attached to different categories of assessment. This, in turn, determines how the tax load is distributed among different categories of property, including farmland, commercial/industrial land, residential land, and various categories of improvements.

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[27] See Appendix VIII-16.

The Commission believes that two categories of assessment warrant particular attention by the Saskatchewan Assessment Management Agency:

- business assessment; and
- farmland assessment.

The Commission did not reach definitive conclusions on the comparative level of assessment for these two categories, mainly because additional information and factors beyond what the Commission was able to analyze in the time available to it, are required in order to come to a conclusion. The partial information available to the Commission did, however, point to the suggestion that these categories of assessment were bearing relatively large portions of the tax load and that accordingly, particular attention needed to be given to these areas.

9. SUMMARY AND CONCLUSION

Under the scenario envisaged in the recommendations of the Commission, there would be greatly improved fairness in the distribution of the property tax load. By virtue of having addressed numerous issues relating to fairness in the distribution of the property tax load, many of the concerns that have led some to believe that there should be a general reduction in property taxes, have been dealt with.

Although the Commission does not believe that additional measures are required to address the gross or the net level of property taxation, the Commission has examined several options which would have a major impact on the reliance on property taxation by different local governments.

The Commission does not support 75% provincial funding of education, mainly because it would not address the more fundamental question of equity and fairness in property taxation, it would impact negatively on the autonomy of school divisions, and it would not, in itself, achieve consensus in regard to utilization of the property tax base by school divisions. In the later regard, the Commission notes that the position of the municipal organizations is that school divisions should be totally financed from provincial sources. The Commission reached essentially the same conclusions in regard to increasing grants to allow school divisions to reduce their mill rates to the average municipal rates as it did in regard to 75% provincial funding, although the Commission does not believe that provincial funding in the 60% range would threaten the autonomy of school divisions.

If the provincial government were to decide to fund 75% of expenditures by school divisions, the Commission recommends that it be done over a period of years, rather than implemented all at once. The provincial government should increase grants to school divisions each year, by an amount roughly equal to the increase in expenditures by school divisions. In this way, school property taxes would not decline in absolute amounts, but they would decline in relative terms.

This would enable school divisions and the provincial government to adjust to higher levels of provincial funding over a period of years, would prevent reductions in property taxes paid by owners of large amounts of property, and would prevent a leakage of monies from the Saskatchewan economy, through the income tax system.

The Commission believes that an income-related property tax credit is preferable to a non-income related property tax rebate, because it targets the relief to those who need them most, and it is a more cost effective means of achieving property tax relief.

The Commission notes, however, that a rebate scheme with a system of limits and ceilings is a less costly mechanism for achieving reductions in net property taxes than across-the-board reductions achieved through increases in provincial payments to local governments.

The Commission does not support reducing provincial transfers to municipalities as a means of financing increases in funding for school divisions.

There are serious inequities in the current system of payments to municipalities because of the low level of equalization that is achieved. Increases in the municipal revenue sharing pools are required in order to bring about full equalization in an acceptable way. Reductions in funding to municipalities would only serve to exacerbate the current inadequacies in equalization.

The Commission also noted that business assessment and farmland assessment were bearing relatively large portions of the local tax load, and that the Saskatchewan Assessment Management Agency should pay particular attention to these categories of assessment, as it exercises its responsibilities in determining the incidence of taxation on the different categories.

The Commission examined a number of potential provincial sources of revenue which could be used to finance the recommendations proposed by the Commission or to bring about further payments to local governments over and above those proposed by the Commission. **The Commission believes there** is potential for use of the motor vehicle fuel tax base as a means of financing the proposed unconditional urban and rural capital programs, or to assist in the financing of revenue sharing programs. The Commission also believes there is potential for the use of the retail sales tax and, under appropriate circumstances, for the use of personal income taxes, in the financing of payments to local governments.

PART IX

OTHER MATTERS

In Part IX, the Commission deals with several separate and distinct topics.

Chapter One addresses the related issues of the structure of local government and the division of responsibility between provincial and local governments.

Chapter Two presents an overview of local government in Northern Saskatchewan and northern local government financial issues.

Chapter Three examines the issue of variable mill rates.

Chapter Four outlines a number of issues regarding financial management of local governments, including financial reporting, accounting, fiscal years, and long-term planning.

CHAPTER ONE

STRUCTURE OF LOCAL GOVERNMENT AND DIVISION OF RESPONSIBILITIES

The Commission was not specifically given the mandate to examine the structure of local government. However, the Commission makes some observations in this connection because of the direct and indirect implications for the financing of local government.

The Commission made some recommendations in Part V in regard to revised governance structure for the delivery of health services in Saskatchewan, largely to improve the planning and co-ordination of services which are currently governed by separate agencies. The Commission has also proposed certain changes in the responsibilities of local government, including the responsibility for policy development and management of the assessment function, the elimination of municipal responsibility for the financing of social assistance, and the elimination of municipal financial responsibility for basic public health services. Apart from these proposed changes, the Commission has made no other proposals affecting either the structure of local governments or the division of responsibilities between them and the provincial government.

The Commission believes, however, that it would be highly appropriate for the provincial government to initiate a review of the structure of local government. This review should not be undertaken with the thought that current structures have failed. Instead, the review should be undertaken with a view to building on the strengths of the past and investigating opportunities for even more effective local government for the future.

The Commission also believes that the review should be undertaken with the possibility in mind that the current structures may be proven to be the best of available options and that no changes are required. In other words, it would not be appropriate to prejudge the need for change.

Some of the questions and issues that have led the Commission to conclude that a review of governance structures is timely and appropriate are:

- Size of Rural Municipalities

  The current structure was established nearly a century ago before there were telephone services, radio, television and a well-defined postal system.Communication technology has been revolutionized.Transportation has evolved from horses, wagons, and prairie trails, to cars, trucks and all-weather roads.

  Communication between the electorate and their representatives is important for accountable and responsive local governments. The question is whether or not the current size of rural municipalities is necessary to maintain the desired level of communications, or whether modern communication and transportation make it possible to maintain a desired level of responsiveness and accountability with larger municipalities.

  There are opportunities for additional economic development in rural municipalities as pointed out in the Report of the Task Force On Rural Development. The question arises as to whether larger rural municipalities would facilitate the hiring of personnel with expertise in community planning and economic development, so as to better take advantage of the opportunities. Alternatively, other structures for intermunicipal co-operation could be considered for performing this function.

  Rail lines are being abandoned and greater centralization of grain delivery points is taking place, thereby putting additional demands on the municipal road system. More and more, roads that are under the jurisdiction of one municipality are required and used by taxpayers in other municipalities, as they deliver their grain. The question arises as to whether larger municipalities would be in a better position to plan, co-ordinate and finance the construction and maintenance of the necessary road system to accommodate the new truck traffic.

  Certain rural municipalities are often faced with intensive oil field activity which creates difficulties for municipalities in terms of enforcing weight restrictions and other measures required to protect the road system. The question arises as to whether a larger municipality would be in a better position to enforce these measures.

In short, some would argue that larger rural municipalities would be more effective. On the other hand, others would argue that it is best to maintain the current structure.

- Relationship Among Rural and Small Urban Municipalities

  The lines that distinguished the interests of the residents of rural and urban municipalities have become blurred over the years. Many people who earn all or a portion of their incomes in an urban municipality live in a rural municipality. Conversely, many people who earn all or a portion of their incomes from farming live in an urban municipality. Urban residents use the rural municipal road system. Rural residents use the cultural and recreational facilities of the urban municipality.These and other phenomena lead some to believe that there would be merit in integrating the administration of the affairs of rural municipalities and urban municipalities, particularly the smaller villages and towns. Others would conclude, however, that the interests of the urban and rural residents and the nature of the municipal issues and problems are different, and that separate and distinct governance structures must be maintained.

- Omnibus Local Government Structure

  Some believe that local governance would be improved if all local government functions such as municipal services, education, hospitals, libraries, and perhaps others, were under a single local government, rather than being divided among separate local governments.Others believe the current functional division is preferable.

- Administrative Skills

  Some believe that larger units of administration, either in terms of geographic area or functions, would enable the engagement of staff with a more comprehensive mix of skills and specialization, thereby improving the efficiency or effectiveness of local governments.Others believe that larger local governments would serve to increase the complexity and cost of local government.

- Coterminous Boundaries

  Some believe that local governance would be more effective if the boundaries of different types of local governments were more coterminous, thereby facilitating co-operation and co-ordination among different local governments.

- Structure of Provincial Government

  There may be need for a different structure of provincial government departments and agencies, either to deal with existing local government structures, or with new structures that may arise from a review of this area.

The Commission did not discuss these and other questions relating to the structure at any length, nor did it come to conclusions in this regard, essentially because they were beyond its mandate. However, the Commission believes that a review of these matters by another group would be highly appropriate. In short:

The Commission recommends that the provincial government establish a mechanism for an indepth review of issues and questions relating to the structure of local governments.

CHAPTER TWO

NORTHERN SASKATCHEWAN

The purpose of this chapter is to provide a brief overview of local government in Northern Saskatchewan and to describe the limitations faced by the Commission in its review of northern local government financial issues.

1. BACKGROUND

In 1983, **The Northern Municipalities Act** was passed and under its provisions, the current system of municipal government in the north was created. As of January 1, 1986, there are 2 towns, 10 northern villages and 14 northern hamlets. In addition, a number of northern settlements are under the administrative direction and control of the provincial government.

Northern municipal government is in an early stage of development. Until recently, most northern communities exercised only limited local authority and control. The former Department of Northern Saskatchewan helped to establish local advisory councils and local community authorities as a first stage in local government. These bodies relied heavily upon the provincial government for assistance. The introduction of **The Northern Municipalities Act** and the establishment of northern municipalities represent a new phase in northern local government.

Northern municipalities have a broad range of powers and duties similar to those of urban and rural municipalities in southern Saskatchewan. These powers and duties include taxation, licensing, regulation of activities, passing bylaws, etc..

Northern municipalities are funded in the same general way as southern municipalities. Their two main sources of revenue are local taxation and transfer payments from the provincial government.

There are four school divisions in Northern Saskatchewan, and they operate under the provisions of **The Education Act,** like their southern counterparts. Their main sources of revenue are local taxation, tuition fees from the federal government on behalf of treaty Indians, and provincial government transfer payments.

Because of their relatively small local tax base, the northern municipalities and school divisions rely more heavily on provincial transfer payments than do most of their southern counterparts.

There are four hospitals in Northern Saskatchewan which are located in Uranium City, La Ronge, La Loche, and Ile a la Crosse. The hospital in Uranium City is under the control of the Department of Urban Affairs which has contracted the operation of the hospital to the Saskatoon City Hospital.The hospital at La Ronge is operated by a non-profit corporation, while the hospitals in La Loche and Ile a la Crosse are owned and operated by religious/not-for-profit boards. The hospitals are funded by S.H.S.P. on the same basis as other hospitals in the province, although S.H.S.P. does recognize the additional supply costs due to higher transportation costs.

Only La Ronge has a separate public library. The Town of Creighton is served by the public library in Flin Flon. Five other northern municipalities are served by libraries which are amalgamated with school libraries in those centres. The Saskatchewan library provides library materials and advisory services to the five northern libraries. Residents of communities without any library service may borrow materials directly from the Saskatchewan Library.

2. ISSUES

There are a number of issues that are either specific to Northern Saskatchewan or which impact more particularly on that area of the province.

- Limited Local Tax Base

  Northern municipalities with populations of 500 or more have roughly half the assessment base on a per capita basis in comparison with their southern counterparts of the same population. In the smaller communities, the per capita assessment base averages only about 20% of their southern counterparts of similar size.

  Having a local tax base is an important determinant of the degree of autonomy or independence of a local government. A local tax base enables local governments to respond to local desires in regard to levels and types of services and, in this way, to reflect the unique nature of each community. Absence of a meaningful local tax base places local governments in the situation where they are dependent on provincial transfer payments to finance their services, and there is correspondingly less opportunity to vary services in accordance with local priorities. Accountability is an important principle of governance and this is also somewhat diminished when the funds they administer are predominantly not those which they have been responsible for raising.

- Unemployment

  The high levels of unemployment are an extremely serious issue for northern residents and it has implications for their local governments. Northern local governments have modest local tax bases to begin with, but the low levels of employment mean there is less assurance that much of the taxation which is levied can be collected.

- Role of Municipal Government

  The serious social problems, many of which arise from unemployment, cause many northern municipal governments to perceive their roles as extending well beyond the roles played by most southern municipalities. It became apparent to the Commission during its brief visit to the north that northern municipalities see themselves as the main vehicle through which economic development is initiated and controlled in the interests of the local people. They perceive a great potential for the municipality to serve as a prime vehicle for changing the economic status of their residents and for addressing many of their social problems.

- Higher Costs in the North

  Costs are higher northern centres, due largely to their vast distances from major population centres and the consequent costs of transportation. For certain communities, much of the supplies must be flown in.

3. OBSERVATIONS

The Commission has several observations to make in regard to the financing of local governments in Northern Saskatchewan:

A. Libraries

The Saskatchewan Library provided $15,980 in grants to northern libraries in 1984, or 17.1% of total library revenues. The provincial grant is equal to the amount of local contributions in the previous year to a maximum of $15,000 per library.

By comparison to regional libraries in southern Saskatchewan, northern libraries receive a relatively smaller proportion of their funding from the provincial government.

Library services are in their infancy in the north. In Part VI of this report, the Commission recommended a foundation grant system for library services. Under this system of financing, the types and levels of services that are practical and desirable in the various communities are first determined. The next step is to arrive at the cost of providing those services in the various types of communities. The difference between this cost and what is deemed appropriate for local financial input constitutes the grant for library services in the community in question.

The Commission believes that the foundation concept should be applied in the financing of libraries throughout the province, including the north. The process of developing the foundation formula will ensure that issues relating to the types and levels of services and the specific costs of delivering those services in the north will be addressed.

B. Hospitals

It is not within the mandate of the Commission to deal with the broad issues of health care but, rather, to deal with the local financing of hospital services.

In Part V of this report, the Commission concluded that the aim of S.H.S.P. should continue to be to define the types and levels of hospital services which are appropriate and to fund 100% of the operating costs which they deem to be necessary to provide those services. The role played by the local tax base must, of necessity, be relatively minor in the north because of the widely dispersed populations, the limitations placed on representative governance, and the very small local tax base. This also dictates that capital costs also be predominantly a provincial government responsibility.

C. Elementary and Secondary Education

The particular operating costs of providing elementary and secondary education in the north are taken into account in the school foundation grants formula. The same basic formula that is used for southern school divisions applies, with two significant exceptions:

- Most of the recognized expenditures are adjusted by a "northern factor" to take into account the higher costs in the north.

- The particularly high costs of operating school facilities in the north are dealt with by a recognition of 70% of actual plant operation and maintenance expenditures. This specific recognition is not provided for school divisions in the south.

The school capital financing structure fully takes into account and compensates for the limited local tax base and the higher construction costs in the North.

The Commission believes that the appropriate structures are currently in place for financing of elementary and secondary education in the North.

D. Municipalities

A number of major issues relating to northern municipal government go well beyond the mandate of the Commission. The question of the boundaries of municipalities, the role of municipalities in economic development, the related issue of local taxation of resource revenues, and role of municipalities in dealing with the acute social problems of the north are not within the terms of reference of the Commission.Even if there had been some "stretching" of the boundaries of the Commission's mandate, to adequately address those issues would have been beyond the resources of the Commission and its expertise.

E. Northern Revenue Sharing

The northern revenue sharing program was introduced in 1982-83. The northern revenue sharing pool is subject to the same escalator index as the urban and rural pools in the south. For 1985-86, the size of the pool was $5.2 million. This amounts to $287 per capita, compared with the urban and rural revenue sharing pools which amount to $96 per capita and $196 per capita, respectively.

The unconditional northern revenue sharing is divided into two parts: Per capita grants totalling $1.2million and foundation (equalization) grants totalling $4.0 million.

The per capita amount for 1985 is set at $53.55 for towns, $48.30 for northern villages, and $43.05 for northern hamlets and settlements. The total per capita grant is determined by multiplying the community's population times the "northern factor" times the per capita amount. The northern factor recognizes the additional cost of providing services in a northern community due to its isolation and distance from major southern centres. The balance of the available unconditional funds are distributed as a foundation grant which is calculated as the sum of recognized water and sewer costs and the recognized general municipal costs minus recognized revenues. The concepts and principles used in the formula are similar to those used in the foundation system for urban municipalities, and the equalization system for rural municipalities. To date, the full equalization entitlement has been paid to northern municipalities, unlike the urban and rural equalization programs which have provided only 32% and 44%, respectively.

The Northern Revenue Sharing Trust Account is a fund established to receive both:

- The municipal property tax revenue and other revenue of a municipal nature on behalf of northern settlements and recreational subdivisions; and

- The municipal property tax revenue and the proceeds from the sale or lease of Crown lands from areas outside the boundaries of northern municipalities.

Revenues received on behalf of northern settlements and recreational subdivisions are earmarked for use in these communities. Revenues received from the larger district are for the benefit of all northern communities. For example, a portion of the funds is used to finance the northern municipal capital grant program.

F. Northern Municipal Capital Grants

The unconditional northern capital grant program was established in 1983, and was modelled after the former unconditional Community Capital Fund Program. The 5 year program will provided up to $250 per capita to northern municipalities to acquire or construct various capital works projects. For an individual project, the maximum grant cannot exceed 90% of the municipality's share of the project costs. A total of $450,000 was budgeted for 1985-86. The $50 per capita per year compares with unconditional capital grants of $25 per capita per year for

1985-86 and 1986-87, for southern urban municipalities.

The Northern Fire Protection Facilities Grant program provides $104,500 in conditional grants to assist communities to acquire, construct, or equip fire halls or fire trucks. The program provides one-time assistance to northern communities of 75% to 95% of the costs of construction and 60% to 90% of the costs of equipment, with the percentage available dependent on the community's population.

The northern capital grant programs offer larger per capita amounts and higher maximum provincial shares of costs than comparable southern programs because of the relatively small assessment base available to northern communities, higher costs of materials, and the relatively low level of the current infrastructure.

Whether or not the amount in the respective pools is sufficient depends on the assumptions made in regard to the levels of services and infrastructure which are deemed to be appropriate, and how quickly it is thought to be practical to provide the various services.

4. CONCLUSIONS

The Commission believes that in regard to elementary and secondary education, the role and mandate of the governing authorities is reasonably clear, and sound funding mechanisms for both operating and capital expenditures are in place. The development of a foundation grant structure for libraries will serve to define types and levels of services and provide the required funding for that service. The current limited role of local governance and funding of hospital services in the north would seem to be an inevitable consequence of circumstances.

An overall evaluation of the municipal sector was far more difficult for the Commission. One question was the range of services which northern municipalities should be providing. As noted earlier, many northern municipalities view their roles as extending well beyond the role which southern municipalities have traditionally provided. Northern local tax bases are very limited, however, and they are not currently in a position to fulfil their vision of northern municipal government because of their heavy reliance on provincial government transfer payments. Whether municipal governments should have a broader role in being the engines of economic growth and development in the north is a serious question. How municipalities with a broader role would be financed and, specifically, whether they should have a form of access to royalties or other revenues from resource development are also important questions.

The Commission originally planned to address at least some of these broader questions but, subsequently, came to the conclusion that they were either beyond its mandate or outside its competency to adequately address. A mechanism, other than this particular Commission with greater familiarity with northern issues, representation from northern residents, and the ability to concentrate on unique northern issues, free of the burdens of having to review the many other issues of major importance faced by this Commission, would be appropriate.

The Commission was deeply impressed by the seriousness of economic and social conditions of the North, and believes that processes and mechanisms other than this particular Commission are required to address them.

CHAPTER THREE

VARIABLE MILL RATES

One of the questions which arose in the discussion of business taxes in Part II, Chapter Four, of this report was the use of variable mill rates to affect the amount of property taxation paid in regard to one classification of property relative to another. The Commission believes that the subject of variable mill rates is important, not only in regard to the taxation of businesses, but also for all categories of property.

There are two main mechanisms through which general tax incidence (the allocation of tax load among different categories of property) is controlled. One is through the assessment system, and the other is through the use of variable mill rates. Each of these is dealt with in turn.

1. CONTROLLING INCIDENCE THROUGH THE ASSESSMENT SYSTEM

In regard to a system of assessing real property (land and improvements) and businesses, there are three main types of decisions which are made leading up to the appraisal of individual properties:

- Classification of Property

  One of the decisions involved is to identify different categories of business and real property and to divide them into classifications. Properties may be classified in accordance with the use to which the property is put, the type of property, or its ownership.

  Property is placed into classifications for two main reasons. One reason is that different techniques may be required to arrive at appraisals for different classifications of property. Another reason is to permit decisions to be made on how the overall property tax load is to be allocated among the different categories of property.

- Basis for Appraisals

  Decisions must be made on the basis upon which properties are to be appraised, such as: whether or not market value is to be the basis of assessing land and, if so, how market values are to be estimated; replacement cost or some other basis for arriving at the value of improvements; the basis for assessing businesses; and the base year(s) for arriving at values. A different basis of appraisals might be used for different types of property.

- Appraised v.s. Assessed Value

  The values that are placed on the assessment rolls may be different from the appraised values. Under the last general reassessment program, for example, urban land was assessed at 100% of appraised value, farmland at 60%, and improvements at 50%. These decisions affect the distribution of the tax load among the different categories of property.

Obviously, each type of decision can have an impact on the amount of property tax paid in regard to an individual property. However, the two types of decisions most often associated with determining tax incidence or the distribution of the tax load, are the classification of properties and the decisions on what percentage of appraised value is to be used in arriving at assessed value. It is through these two types of decisions that the incidence of property taxation is controlled in Saskatchewan.

In Saskatchewan, the statutes require that the taxing authorities apply the same mill rate to all classifications of property. Thus, the only general means of controlling tax incidence currently available is through the assessment system.[1]

2. CONTROLLING INCIDENCE THROUGH VARIABLE MILL RATES

Another way of controlling the incidence of property taxation is to permit or require the application of different mill rates to different classifications of property.

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[1] An exception in Saskatchewan is in Saskatoon where the Rental Value Method of assessing businesses is used. By virtue of this different method of assessment the City of Saskatoon is also able to set a different rate of taxation for businesses.See Part II, Chapter 4, of this report for a more complete treatment of this subject.

Policies on abatements and exemptions could also be considered to be a means of controlling tax incidence.

The capacity to have some form of variable or split mill rates exists in 7 provinces.[2] In British Columbia and Alberta, each local taxing authority may set different mill rates for various classes or categories of assessment. It is under this authority that in 1983 the City of Vancouver initiated a 3 year phase out of the business tax in favour of higher mill rates on the commercial sector relative to the residential sector. In Ontario, the provincial government has legislated a ratio to be followed by municipalities and school divisions in setting different mill rates for residential and farm assessment versus commercial assessment.

Each of the four Atlantic Provinces have variable mill rates.In New Brunswick, Prince Edward Island, and Nova Scotia, only the municipal mill rate is split between residential and commercial assessment. New Brunswick has legislated the ratio between residential and commercial mill rates, while Nova Scotia and Prince Edward Island permit municipalities to determine the relationship between the mill rates. In Newfoundland, only the municipal council of and the school division for the City of St. John's can vary their mill rates between residential and commercial assessments.

Only Manitoba and Saskatchewan do not permit any variation of mill rates between different categories of assessment within a municipality, school division, or other local taxing authority.

In Prince Edward Island, New Brunswick and Manitoba, there are provincial property taxes imposed to help finance elementary and secondry education. The provincial government, in each of these provinces, sets a different mill rate for different categories of assessment.

3. OBSERVATIONS AND CONCLUSIONS

The Commission concluded in an earlier chapter that the same system of business taxation should apply to all municipalities throughout Saskatchewan. The main concern of the Commission was to avoid having municipalities engage in tax competition and the creation of competitive advantages and disadvantages among businesses in different communities through property taxation. The same potential problem would exist if municipalities were given the authority to set different mill rates for different classifications of property.

Quite apart from the question of intermunicipal tax competition, the Commission is concerned about the controversies and contentions that could arise within individual municipalities over the question of different tax rates and tax loads. Local governance is often complex and difficult. To be given the responsibility of determining relative tax loads would add to that complexity and difficulty. On the one hand, it may appear to strengthen local governments by giving them certain authority which they do not now have.On the other hand, the difficulties which would be involved in reaching decisions on the different mill rates, and consequent differentials in tax loads would tend to divert their energies from other important matters.

The question also arises as to whether all local governments with access to the property tax would be able to make independent decisions in regard to the respective mill rates on different types of properties. If they were, the probability of different mill rate ratios among those different taxing authorities would be high. Not only would there tend to be confusion in regard to the different rates, but one local government could end up counter-acting the efforts of another.

The Commission is not suggesting that local governments have no voice in the question of tax incidence. The Government of Saskatchewan has proceeded with the recommendation of the Commission to establish a Saskatchewan Assessment Management Agency which has a majority of local government representatives on its governing board of directors. Through the representatives they have on the board of directors and, through the consultative processes utilized by the Agency, local governments will now have input into decisions on tax incidence which they did not have until the present.

The Commission believes that the establishment of different mill rate ratios set by the Province is a different matter. It can have the same dollar impact as using different percentages of appraised value in arriving at assessed values, but has the added advantage of being more visible. Visibility of taxation decisions is compatible with democratic principles. However, if more than one differential is required, it also produces complexity in the tax system and makes it more difficult for local governments to arrive at the mill rate(s) they must strike to raise the required revenue.

In short, the Commission recommends that municipalities continue to be required to levy uniform mill rates on different classifications of assessment and that municipalities not be given the authority to vary the incidence of taxation through the use of variable mill rates.

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[2] Based on on a 1986 survey by the Commission of all provinces, except Quebec.

CHAPTER FOUR

FINANCIAL MANAGEMENT

During the consultation process and in analyzing local government information, the Commission has identified a number of issues and concerns regarding the financial management of local governments. These issues and concerns include standardized financial reporting and accounting, fiscal years, and long-term planning.

1. STANDARDIZED FINANCIAL ACCOUNTING

Standardized accounting usually is based on a standard chart of accounts which, although it classifies similar expenditures in a similar manner, allows an individual local government to establish accounts in the level of detail it requires, depending on the size and complexity of the local government itself.

For example, hospital officials in 1952 developed the Canadian Hospital Accounting Manual which has been used since as the standardized chart of accounts for all hospitals in Canada.This system standardizes the classification of all accounting items according to department, and type of income and expenditures, but allows individual hospitals to establish the level of detail they wish. For example, a very small hospital may only have a few departments and expense/revenue categories identified, while larger hospitals would identify each department and units within departments, and would have a large number of classifications of expenditures and revenue.

A. Current Situation

Currently, the cities still use their own individual classifications of accounts. However, all other urban and all rural municipalities have adopted a common accounting system. Both school divisions and hospital boards have common accounting systems.

The Department of Urban Affairs has recently visited all the cities to discuss various proposals for standardized financial accounting and reporting. To date, the cities have been receptive to changes which would, at a minimum, standardize financial reporting.It is of interest to note that one of the objectives of the Department of Municipal Affairs when it was first established as a department, was to standardize municipal accounting.

The joint brief by 11 cities to the Commission suggested that the Commission should examine the concept of a uniform standard accounting and reporting system for all municipalities.

B. Benefits

Those who support standardized accounting suggest that it has several merits:

- Once municipal officials are familiar with the accounting procedures in one municipality, they can readily become familiar with the forms and procedures in other municipalities.This saves staff training costs and should result in fewer errors when staff move from one local government to another.
- The introduction of common computerized systems is facilitated, thereby improving efficiency among local governments.
- Independent accounting firms would be familiar with the standard accounting system and would be able to perform more precise audits at lower costs.

2. STANDARDIZED FINANCIAL REPORTING

Standardized financial reporting stops short of standardized accounting and permits individual centres to adopt or retain different accounting systems, but places the onus on each local government to report its financial information to the provincial authorities according to a standardized format.

A. Current Situation

All municipal governments, except cities, currently use a common financial reporting format. Cities submit their financial information according to their individual accounting systems and reporting formats.School divisions and hospitals each use a common financial reporting format.

Regina and Saskatoon have urged the provincial government to study the issue of standardized financial reporting. The cities have been receptive to changes which would, at a minimum, standardize financial reporting.

B. Benefits and Implications

Implementation of standardized financial reporting would facilitate intermunicipal comparisons and analysis of expenditures and revenues. The standardization of reports would eliminate the time-consuming current practice of provincial government staff interpreting and converting the reports.

Development of a standardized financial reporting system without the development of a corresponding standardized accounting system would entail some additional costs to the cities to transpose figures from different accounting systems to a standard format. This annual exercise may also introduce errors and inconsistencies in the final product.

3. FISCAL YEARS

The urban, rural and northern municipal and school fiscal years are the same as the calendar year, January to December.Some have suggested that it would be appropriate and administration of local governments could be enhanced by changing to an April to March fiscal year; the same fiscal year as the provincial goverment.

Hospitals changed from a January to December fiscal year to an April to March fiscal year in 1977-78, as part of a national exercise. To accomplish this conversion, hospitals were given and operated on a 15 month budget in the 1977-78 period.

- Benefits and Implications

  Those who support converting municipal and school fiscal years suggest that the following benefits would be realized:

  — Local councils and school boards would know the provincial transfer payments prior to the start of the fiscal year. This would improve the amount of discretion which the council or board would exercise in setting their budgets and would facilitate municipal and school fiscal planning and budgeting. The local governments would not incur three to four months of expenditure, as they now do, before the provincial budget is set and provincial transfers payments are known.

  — Certain costs such as snow removal can be more appropriately allocated to a budget year when the entire season falls within the fiscal year.

  At present, seasonal variations can result in major fluctuations in the amount of expenditure incurred in a particular fiscal year.

Converting to an April to March fiscal year would require a change in the timing of tax requests from the property owners and, more importantly, the establishment of a mill rate to generate sufficient revenues to cover a 15 month period would be required in the transition year. This may be publicly unpopular. Some have suggested that it would not be appropriate for local governments in Saskatchewan to proceed with conversion of the fiscal year, while municipalities and schools in other provinces follow the calendar year.

4. LONG-TERM PLANNING

Long-term capital planning assists local governments in identifying, prioritizing, and planning the necessary financial arrangements for various projects.

Preparation of an annual five year capital plan is a legal requirement for urban municipalities under **The Urban Municipality Act, 1984.** Five year capital plans are also required to be submitted if a municipality applies for a grant from the Provincial Capital Fund. School divisions are also required to submit a three year capital plan to the Department of Education.

Long-term capital planning allows the Province to identify the magnitude and nature of local capital expenditure plans and can, therefore, consider this information in its own budgetary and program plans. Although the requirement for capital plans initially posed some difficultites for smaller municipalities when it was first introduced, it has now been widely accepted as a valuable part of fiscal planning.

In Part IV of this report, the Commission discussed some of the issues surrounding long-term capital planning. The Commission has recommended that "the Department of Education promote long-term capital planning by the issuance of a policy statement on capital projects to supplement the criteria for prioritizing projects".

In regard to municipal governments, the Commission noted that five year capital plans can be difficult to prepare without some form of commitment concerning the availability of funding beyond the fixed term of provincial capital grant programs. In order to assist urban and rural municipalities, the Commission has recommended the introduction of an ongoing unconditional grant program to replace the Provincial Capital Fund and the Cultural and Recreational Facilities Grant Program, and that a mechanism be developed to increase the amount of capital funds over time.

5. FINANCIAL RECORDS

The Commission, in its efforts to perform comprehensive research into the financial affairs of local governments, has encountered some difficulties in obtaining and analyzing the required information. The data for capital expenditures tended to be less refined than data for operating expenditures and, at times, data was not available for the Commission to perform analysis which was normally not conducted by the government agency. For example, the Saskatchewan Hospital Services Plan was unable to provide a full historical series of data relating to the union hospital levies and agreements under **The Hospital Revenue Act.** S.H.S.P. was also unable to provide data on the costs and sources of funds for capital construction projects.The Department of Education did not have readily accessible data on the historical sources of funding of approved construction projects, nor did the Department have readily accessible and complete five year capital plans. The Department of Urban Affairs was unable to provide accurate data on the sources of capital financing for urban municipalities for various years.

6. RECOMMENDATIONS

The Commission recommends the following in regard to financial management:

- **The Commission recommends that standardized reporting and accounting be implemented.**

  The Commission believes that the potential benefits of standardized accounting systems in cities has a great deal of merit and potential for improving the financial management of the larger urban centres. As a minimum, the Commission recommends that standardized financial reporting be implemented as soon as possible. The development of standardized formats should be undertaken jointly by the Department of Urban Affairs, individual cities, and S.U.M.A..

- **The Commission recommends that conversion to fiscal year of April to March not be pursued at this time.**

  The Commission believes that the potential benefits of converting to a different fiscal year are not significant and the disruption to the taxpayers does not appear to justify this conversion.

- **The Commission emphasizes the importance of the recommendations regarding long-term capital planning and the need for the provincial government to be a partner in the planning process in order to generate accurate and meaningful long-term capital plans.**

- **The Commission recommends that provincial authorities devote more of their attention and resources to the diligent development and maintenance of data on capital and operating revenues and expenditures of local governments, to assist in ongoing evaluation and development of policy.**

PART X

SUMMARY

In Part X, the Commission summarizes its conclusions and recommendations concerning a broad range of issues pertaining to the financing and governance of local governments in Saskatchewan.

SUMMARY

1. OVERVIEW

In its final report, the Local Government Finance Commission has addressed a broad range of issues pertaining to the financing of local governments in Saskatchewan. Issues have been analyzed, options have been explored, and the Commission's conclusions and recommendations have been described.

Local governments provide a means by which people can set local priorities and make local decisions in accordance with the particular desires of the local population served. Having local governance of certain public services provides a more effective means for the overall needs and desires of the population to be met than could be the case if the governance were vested entirely with the provincial government.

There are different types of local government, each with differing degrees of financial and policy-making independence from the provincial government. There are variations in the breadth, complexity, and cost of services provided by the different local governments, and they have varying mechanisms for being held accountable to the public they serve.

In general, the current provincial/local government distribution of responsibilities for the provision of services is appropriate and, on an overall basis, local governments are providing a desirable level of services.

Provincial financial assistance for local governments is required in order to prevent an excessive reliance on the local property tax base and to permit greater equality in levels of service and local tax rates among local governments.

The property tax is the only practical local source of revenue of sufficient magnitude to meet the financial needs of local governments, but care must be taken to ensure that there is greater fairness in this form of taxation.

The Commission firmly believes in the value of local government. The Commission has undertaken its examination of policy options with a view to strengthening local government while, at the same time, maximizing the fairness of the taxation system.

The Commission has proposed a number of measures which are intended to improve the fairness of the distribution of the property tax load among taxpayers.

- An income-related property tax credit was proposed in an earlier Commission report, as a means of dealing with the insensitivity of the property tax to changes in ability to pay and to compensate for the regressivity of the property tax for those with low incomes. This program will provide for more fairness in the net level of property taxes paid.

- Major changes were proposed for the assessment function in an earlier Commission report. Improvements are required in assessments to ensure greater equity in the distribution of the property tax load.

- Changes to the local tax base were proposed, including the payment of grants-in-lieu of taxes on property of the provincial government and the elimination of exemptions for certain categories of property. These measures would broaden the local tax base and more equitably allocate the property tax.

- Property taxes are unduly high for taxpayers of some local governments. The Commission has proposed substantial changes to the formulas used to distribute provincial funds among local governments to ensure that there can be greater equality in both local tax rates and in the level of services.

While these proposals were not intended to address the question of the level of property taxes, if implemented, they would have the effect of reducing net per capita property taxes in Saskatchewan below the national average.

2. THE LOCAL TAX BASE

The Commission has recommended major changes in regard to the local tax base, including:

- The payment of grants-in-lieu of taxes in regard to property owned by the provincial government and in regard to commercial property of the Saskatchewan Power Corporation.

- The removal of tax exemptions from a number of categories of property.

- The conversion of the current system of Saskatchewan Power Corporation grants and surcharges to a local sales tax on natural gas and electricity.

- The discontinuation of current methods of determining business assessments and the introduction of the Percentage of Real Property Assessment Method for all municipalities in the province.

Taken together, these measures will substantially improve the fairness in the distribution of property taxes.

The Commission recommended changes to the Potash Tax Sharing Arrangements.

A mechanism for dealing with other opportunities for commercial/industrial tax sharing was also proposed.

The Commission also noted that business assessment and farmland assessment were bearing relatively large portions of the local tax load, and that the Saskatchewan Assessment Management Agency should pay particular attention to these categories of assessment, as it exercises its responsibilities in determining the incidence of taxation on the different categories of assessment.

The Commission recommended that municipalities continue to be required to levy uniform mill rates on all classifications of property and that individual municipalities not be given the authority to implement variable mill rates.

3. REVENUE SHARING AND THE SCHOOL FOUNDATION SYSTEM

A. Revenue Sharing Concept

The Commission recommended that the revenue sharing concept be retained as a means of determining the size of the operating payments from the provincial government to municipalities, and that the tax bases for the personal income tax, the corporate income tax, the sales tax and gasoline tax be used in the escalator index.

B. Rural Revenue Sharing

The Commission concluded that there were gross inequities in the current distribution of revenue sharing payments to rural municipalities. As a result, the more wealthy municipalities are able to finance high levels of expenditure with relatively low mill rates, while the less wealthy municipalities are able to finance only modest levels of expenditure, but still require relatively high mill rates. To address these issues, the Commission made a number of recommendations, including:

- That both conditional and unconditional grants be continued.

- That conditional road construction grants vary between 20% and 80% of costs, depending on the wealth of the municipality; the same range of assistance currently provided under the bridge grant. This will provide greater equalization.

- That the basic grant be eliminated and these monies be distributed through the equalization formula.

- That approximately $13 million be added to the rural revenue sharing pool. This, along with other changes, would permit the payment of full equalization entitlements to rural municipalities. Full equalization will enable municipalities to provide similar levels of services with similar local tax rates, regardless of their wealth.

  Full equalization is technically possible, but not practical, with the current level of monies in the rural revenue sharing pool.

The Commission concluded that the equalization formula used by the Department of Rural Development was conceptually sound, but that full equalization could not be achieved when only 43.7% of the equalization grants to which municipalities are theoretically entitled are actually paid. Some changes were proposed to the formula, including the recognition of special circumstances such as the extraordinarily high road maintenance and reconstruction costs associated with oil fields.

The Commission also recommended that in light of rail line abandonment and centralization of grain delivery points, a fundamental review of the designated road system be undertaken to ensure that priority is given to those roads which are most needed to accommodate new traffic patterns.

C. Urban Revenue Sharing

The Commission also noted inequities in the distribution of revenue sharing monies among urban municipalities, mainly due to insufficient equalization. Urban municipalities with a small tax base are unable to provide levels of services similar to other municipalities of similar population, but with a large tax base, unless they levy higher mill rates. The Commission made several recommendations in regard to urban revenue sharing:

- That the current per capita grant be retained, but that it be considered as recognized revenue in the foundation grant calculation.

- That the basic grant, which is intended to assist municipalities with very small populations, be eliminated. In its place, the Commission recommends that recognized expenditures in the foundation formula be adjusted to better reflect the expenditures required by small municipalities.

- That approximately $17.0 million be added to the urban revenue sharing pool. This, along with other proposed changes will provide full equalization in the urban revenue sharing system. Full equalization will enable municipalities of similar populations to have similar levels of services at similar local tax rates, regardless of their wealth.

  Full equalization is technically possible, but not practical, with the current level of monies in the urban revenue sharing pool.

- That adjustments be made to the schedule of recognized expenditures and revenues in the foundation formula to provide for greater fairness in the allocation of grants among municipalities in the different population groupings.

The Commission concluded that although a number of changes should be made to the foundation grant formula, it was based on fundamentally sound principles, and its basic structure did not need to be changed.

The Commission recommended that the intermunicipal fire protection and recreation grants be continued.

The Commission noted the extensive use of "grandfathering" provisions and across-the-board percentage increases in urban revenue sharing. Excessive use of "grandfathering" provisions jeopardizes and compromises the equalization principle underlying the grant programs. The Commission recommends that "grandfathering" be used sparingly, only to prevent excessive reductions in grants arising from changes to grant formulas.

D. School Foundation Formula

The Commission concluded that the school foundation formula was based on sound principles and was structured in a fundamentally sound fashion. Substantial inequities arise and the equalization principle is compromised, however, because the recognized expenditures in the formula have fallen considerably below the level of expenditures required by school divisions. Consequently, the less wealthy school divisions must have higher mill rates in order to finance standard levels of services, or have lower levels of services, or both.

The Commission recommended a number of changes to the school foundation grant formula:

- An increase in recognized expenditure by approximately 11.5%, and an increase in the computational mill rate of approximately 11 mills. The increase in recognized expenditures would bring them in line with the actual average level of expenditures of school divisions.

  This would cost approximately an additional $23.5 million. It would enable all school divisions to achieve a realistic and desirable level of programs and services with comparable local tax rates.

- The phasing out of the sparsity factor.

  Other factors in the formula now achieve the objective behind the sparsity factor more effectively.

- The discontinuation of conditional funding for students with high cost learning disabilities and the substitution of unconditional funding to parallel the financial approach which is now used for students with low cost disabilities.

  This will remove the current inappropriate financial incentives for the designation of students with learning disabilities, and will encourage more resources to be put into diagnosis and student services, rather than testing for eligibility for conditional grants.

4. CAPITAL REQUIREMENTS AND FUNDING MECHANISMS

A. Sources of Funding

There are several sources for the funding of capital expenditures:

- Capital Debt - These are mainly debentures or long-term capital loans.
- Reserves and Trust Funds - These are monies set aside over a period of years for future capital projects.
- Current Local Revenue - These are used primarily for financing operating expenditures, but are also used to finance capital.
- Utility Charges - These are charges paid by those who use utilities such as electricity, water, natural gas or public transportation.
- Grants - Various grants are paid by the senior governments.

Capital grants serve one or more of the following purposes:

- To stimulate construction activity and the economy in general.
- To encourage the construction of particular types of projects which the senior government believes should be given a priority.
- To encourage projects for which the benefits extend beyond the boundaries of the municipality.
- To provide a means of enforcing provincial standards through the conditions that are placed on the grants.
- To reduce the required reliance on local revenue sources.
- To assist municipalities of similar populations in obtaining comparable facilities at comparable local tax rates (equalization).

B. Conditionality/Unconditionality

The Commission believes that there are merits for both unconditional and conditional funding.

Unconditional funding enables local officials to make decisions on what is most needed in their respective communities, and it promotes the independence of local governments. The Commission believes that unconditional funding works best in the financing of those types of capital expenditures for which there is a reasonably uniform need among the individual local governments.

The Commission believes that conditional funding works best to assist local governments with needs that are specific to the individual local government at specific times. Such needs cannot be efficiently met by uniform distributions of unconditional monies to all local governments.

C. Urban Municipalities

The Commission reached the following conclusions and recommendations in regard to urban municipal capital financing:

- The lag in the "take-up" of provincial grants and the low levels of capital suggest that there is no major backlog of capital requirements in Saskatchewan.
- That urban municipalities will require capital expenditures of an average of approximately $167 million per year over the next 5 years in order to meet their requirements. This represents an increase of 12% over the average level of the past 5 years.
- Urban municipalities can make more extensive use of capital loans and debentures in financing their capital expenditures.

  The level of capital debt is very low in Saskatchewan relative to other provinces. Saskatchewan municipalities can make more extensive use of capital loans and debentures in spreading the cost of capital projects over their useful lifetime without putting an undue burden on future taxpayers.
- That capital loans and debentures should be used to finance a greater proportion of the capital cost of sewer and water utilities, and that user charges should be set at levels which will cover operating costs as well as the

amortized cost of capital works, including the repayment of the capital loans and debentures.

- That it is appropriate for user charges to be used in the financing of utilities, particularly sewer and water, so that these utilities become self-financing.

- Municipal Water Assistance and Water Pollution Control Grants should be restructured to reflect the general objective of financing water and sewer utilities through reasonable user charges. Grants should be focused on those municipalities which require capital grants to keep their utility rates within reason and without the need for a general municipal subsidy. Municipalities which can meet their capital costs with reasonable user charges do not require and should not receive water and sewer grants.

- That the Cultural and Recreational Facilities Grant Program which will expire on March 31, 1988, not be renewed.

- The establishment of a new ongoing unconditional capital grant to replace the Provincial Capital Fund and the Cultural and Recreational Facilities Grant Program. The initial level of the fund should be no less than $30 per capita per year.

- That the grants be paid to individual municipalities on a per capita basis.

- That the foundation grant formula under revenue sharing include standard expenditure amounts for capital debt retirement, current revenue contributions for capital, and contributions to reserves and trust funds so that there will be equalization in the overall funding of capital projects.

- That the new provincial capital program be ongoing (no specified termination date), and that a mechanism be established to increase the amounts over time. This could be accomplished by the development of an escalator index or by using a dedicated tax (the proceeds of which would grow over time) to finance the capital fund.

- That municipalities be paid their full allocation under the new unconditional provincial capital program each year, either to spend on capital that year, or to be placed in a Capital Trust Fund for subsequent use for related capital debt retirement or capital expenditures.

  By being able to place their allocations in a Capital Trust Fund where they will earn interest, municipalities which use their allocations later than other municipalities will not see their allocation suffer a loss in purchasing power. It will also be of assistance to the smaller municipalities which need to accumulate several years of allocations before they have sufficient monies with which to finance their project(s).

D. Rural Municipalities

In regard to rural municipal capital funding, the Commission notes that major portions of road and bridge construction could be considered to be capital expenditures and that the provincial government currently provides assistance for these expenditures through revenue sharing.

However, the Commission also believes that rural municipalities should receive capital grants to assist in the construction of municipal buildings, purchasing equipment, and the construction of cultural/recreational and other capital projects either on their own, or in conjunction with urban municipalities in their area.

The Commission recommends that rural municipalities be provided with an unconditional capital grant with an initial value of no less than $15 per capita per year.

As with the proposed new urban capital program, the Commission recommends that:

- The program be ongoing (no specified termination date).

- A mechanism be developed to increase the amounts over time.

- Municipalities be paid their full allocation each year, either to spend on capital in that year, or to be placed in a Capital Trust Fund for subsequent use for related capital debt retirement or capital expenditures.

The Commission recommends that municipalities be allowed to use the monies for road or bridge construction, if they so wish. This is necessary to ensure that the grant program does not create a bias against the contracting of construction work in favour of the use of municipal forces.

The monies could be distributed to municipalities on a straight per capita basis, or on the basis of a certain percentage of the standard annual expenditure requirements used in the equalization formula.

It may be desirable to have components in recognized expenditures in the rural equalization formula to account for current revenue contributions to capital, thus achieving an equalizing effect on the overall funding of capital projects.

E. School Divisions

In regard to the financing of school capital projects, the conclusions and recommendations of the Commission are:

- That the level of capital debt for school divisions is not a cause for concern.
- That conditional funding should continue for major capital projects.
- That the Department of Education should announce approval of all high priority projects in early November of the same year in which requests have been submitted by school divisions, and that approval of remaining projects be announced at the time of the Budget Speech. This will enable school divisions to proceed with construction of capital projects at a more opportune time, to reduce construction costs, and to reduce the overall timelines for projects.
- That the Department of Education should adhere closely to the criteria which it has developed for prioritizing projects requested by school divisions.
- That the Department of Education should promote long-term capital planning by the issuance of a policy statement on capital projects to supplement the criteria for prioritizing projects.

The Commission believes that there is merit in the current school capital financing arrangements, including the full reimbursement of the provincial government of approved capital debt retirement. The Commission believes that there would be merit, however, in the explorations of two options:

- Roof Repairs

  Under this option, school divisions would receive financial support for only a percentage of the cost of a roof repair project. The percentage of assistance would vary with the wealth of the school division in accordance with the equalization principle. This would provide incentives for ongoing maintenance and repair of roofs.

- Renovations

  Under this option, school divisions would receive reimbursement for only a portion of their approved capital debt retirement. The percentage would vary from division to division in accordance with the equalization principle.In return for less than full reimbursement of capital debt retirement, divisions would receive unconditional capital grants to assist them with ongoing renovations and repairs for which no other assistance would be provided. This would enable school divisions to act in accordance with their own priorities and time schedule, in regard to this category of capital projects.

F. Central Debt Financing Authorities

In regard to the issue of central debt financing authorities, the conclusions and recommendations of the Commission are:

- That the present system of marketing local government debentures in Saskatchewan is fundamentally sound and should be continued.
- That the Local Government Board and the Municipal Financing Corporation play vital roles and have contributed in a major way to a sound system of capital debt financing in Saskatchewan.
- That the Municipal Financing Corporation update the interest rate at which it is prepared to purchase debentures more often than its current practice of a monthly basis, and that the rates be "structured" in accordance with the term of the security.
- That the Local Government Board consider certain changes in its current policies:

— Local governments should be permitted to issue debentures with either annual or semi-annual payment of interest. This would improve accessibility of Saskatchewan local government debentures in some markets.

— Local governments should be permitted to issue debentures of longer than 10 years in certain circumstances. One of the purposes of debt financing is to spread the capital cost of certain facilities over their useful lifetime and, for some large facilities, differences in the term of the securities make a substantial difference in the annual debt retirement load.

— Local governments should be allowed to award contracts before debentures are actually sold. The current policy of requiring debentures to be sold before contracts are let may require certain local governments to issue debentures at an inopportune time. The current policy would be appropriate if local governments were having difficulty in finding buyers for their debentures, but this is not the case.

The Commission emphasizes, however, that local governments should not be permitted to award contracts until the Local Government Board has authorized a debenture issue.

— Within the ceiling established by the Local Government Board, local governments should be allowed to change the interest rate on debentures as an administrative matter not requiring a bylaw. Once the interest rate is set by bylaw, the Commission believes local governments should have greater flexibility in adjusting the interest rate as the market place changes and, accordingly, interest rates on debentures need to be adjusted to respond to the market. Currently, local governments are required to pass bylaws authorizing such changes in rates. In the view of the Commission, this requirement is cumbersome, causes unnecessary delays in the marketing process, and impedes the ability of local governments to respond promptly to changes in interest rates.

— The Commission also recommends that **The Local Improvements Act** be amended to permit municipalities to issue debentures on local improvement projects before the work is completed. This, too, would give municipalities more flexibility in dealing with the capital markets.

5. HOSPITAL GOVERNANCE AND FINANCE

The Commission reached a number of conclusions and made a number of recommendations in regard to the governance and funding of hospitals:

- That hospital services should continue to be primarily a provincial responsibility.
- That the Saskatchewan Hospital Services Plan continue to fund 100% of the cost of services which it deems to be appropriate for each hospital, based on the expenditures which it deems to be sufficient to finance those services.
- That the property tax not be used as a primary or major source of funding for hospitals.
- That hospital boards continue to have the authority to provide hospital services additional to those which are approved and funded by the provincial government.
- That any additional services provided by hospital boards above the provincially defined level, as well as expenditures above the approved level on the provincially defined level of services continue to be financed from local sources.
- That all municipalities be required to be a member of a union hospital district or a district which supports a Crown or religious/not-for-profit hospital.
- That local property tax levies by a hospital board be subject to the approval of a numerical majority of municipalities in the district, and by municipalities representing a majority of the assessment base in the district.

The Commission identified a number of options relating to the method in which requisitions would be presented to municipalities and requests would be rationalized, in situations where there is more than one hospital in a district.

- That religious/not-for-profit hospitals have access to the local property tax base on the same basis as union hospitals. That is, they should have the right to requisition funds, but the requisition must be approved by the majority of municipalities and by municipalities representing a majority of the assessment base in the district.

- That, as an ultimate objective, district health authorities be developed to plan and rationalize the health delivery system and:

  — That there be renewed effort at working toward coterminality of boundaries of agencies delivering health programs; and

  — That district health planning bodies be established to focus on planning for health programs at the local level.

- That the current practices of financing capital expenditures from a combination of provincial grants and local contributions be continued.

- That the Public Health Levy be eliminated.

- In regard to the public health programs delivered by the cities of Saskatoon and Regina, the Commission recommends tbat the provincial government increase its grants to levels which reflect the cost of services delivered through the Community Health Services Branch of the Department of Health to residents of other municipalities in the province.

- That the Saskatchewan Assistance Plan Levy be discontinued.

6. GOVERNANCE AND FUNDING OF LIBRARIES

The Commission reached a number of conclusions and made the following recommendations concerning the governance of libraries:

- That the current governance arrangements for libraries are generally satisfactory.

- That the division of responsibilities among the three-tiered library system is appropriate.

- Although the governance structure for regional libraries provides for less than ideal accountability to taxpayers, the arrangements are the best of the available alternatives.

- That the current method of selecting members of regional library boards be retained.

- That the regional library budget continue to be approved at an annual board meeting.

- That participation in regional libraries should continue to be optional, rather than be made compulsory.

- That responsibility for public libraries should continue to be vested in library boards, rather than be assigned to school divisions.

The Commission also reached a number of conclusions and made the following recommendations regarding the financing of libraries:

- That the current overall provincial/local share of operating costs for regional libraries is acceptable.

- That relative to regional libraries, Regina and Saskatoon's municipal libraries receive insufficient provincial funding and that, as an interim measure, provincial grants to these municipal libraries should be increased by approximately $3 per capita.

- That a foundation grant formula should be developed to replace the current funding formula. The current funding formula has several flaws and needs to be resolved. The proposed library grant formula would consist of objectively determined expenditure requirements for each library and objectively determined amounts each library can be expected to finance locally. The foundation formula should be used to determine funding for both regional and municipal libraries.

- That user fees should not be relied upon as a major source of funding for libraries.

- That the current approach to financing capital requirements should continue, rather than developing a conditional capital grant for libraries.

7. FINANCIAL INTERRELATIONSHIPS

The Commission noted that recommendations can be considered individually or as a package. The Commission noted that implementation of certain recommendations helped to achieve the objectives behind other recommendations. The Commission recommended that the recommendations be dealt with as an integrated package in order to achieve the objectives behind the recommendations in the most cost effective way and in a way which achieves a reasonable balance in terms of overall benefits to property taxpayers in urban and rural municipalities. Recommendations which would cost a total of $88.6 million if implemented separately could be implemented for a total of $60.1 million, if they were dealt with as an integrated package.

The Commission identified ways in which its recommendations could be phased in over a period of years, if this were deemed necessary or desirable.

8. RELIANCE ON THE PROPERTY TAX AND PROVINCIAL FUNDING

A. Level of Property Taxation

The Commission made numerous recommendations designed to improve fairness in the property tax system and more equitably distribute property taxes. The Commission's recommendations, while not directed at the overall level of property taxation, would have the effect of lowering net property taxes in Saskatchewan below the national average.

By virtue of having addressed a number of important issues that would improve the fairness of the property tax and promote greater equity in the property tax loads borne by property taxpayers in the various local governments, many of the concerns that have led some to urge that property taxes be reduced, have been dealt with.

Nevertheless, the Commission identified a number of options which would achieve a reduction in the reliance on the property tax for certain types of local government and, hence, a reduction in the overall reliance on property taxes.

The Commission examined in detail the option of having 75% provincial funding of education. This option would cost an additional $174 million in provincial grants and would enable school divisions to reduce their mill rates by about 59 mills from their current (1985) level of 112 mills. The Commission does not support the 75% option for 3 main reasons:

- The Commission addressed various issues relating to the fairness of the property tax in other recommendations. Increasing provincial grants to cover, on average, 75% of costs, simply to reduce property taxes, does not address the basic issue of fairness.
- 75% funding of education would jeopardize the autonomy of school divisions.
- It would not achieve consensus over the issue of school divisions having access to the property tax base. The municipal organizations have indicated that their objective is to have education removed entirely from the property tax. The Commission believes that the debate is likely to continue whether the provincial share remains at its present level or is increased to 75%.

The Commission also examined the option of increasing grants to school divisions to enable them to reduce their mill rates to the average municipal level. This would increase grants as a percentage of school division revenue to between 56% and 62%, depending on whether it was the current rural, urban or average rural/urban mill rate that was used as the target. The Commission believes that provincial grants at those levels would not jeopardize the autonomy of school divisions. As with the 75% option, however, the Commission noted that, in and of itself, this option does not address the issue of fairness and it would be unlikely to achieve consensus over the use of the property tax by school divisions.

Some have suggested that provincial funding for municipalities should be reduced, that the monies be given instead to school divisions, and that other measures also be taken to provide complete provincial funding of education. Apart from the concerns the Commission would have about school divisions not having access to the property tax base, the Commission noted that there are serious inequities in the current system of payments to municipalities because of the low level of equalization that is achieved.

Increases in the municipal revenue sharing pools are required in order to bring about full equalization in a realistic and acceptable way. Reductions in funding to municipalities would only serve to exacerbate the current inadequacies in equalization and, accordingly, the Commission strongly recommends that provincial funding for municipalities not be reduced to finance complete provincial funding of education.

The Commission examined three types of rebate programs that could be used as a means of reducing the level of property taxes. The Commission has recommended an income-related rebate program to address the insensitivity of the property tax to changes in ability to pay and the regressivity of the property tax for those with low incomes. The Commission believes that an income-related property tax credit is preferable to a non-income related rebate because the former targets the rebates to those who need them most and is a more cost effective means of achieving property tax relief. The Commission also notes, however, that non-income related rebate schemes with a system of limits and ceilings is a less costly mechanism for achieving reductions in net property taxes than across-the-board reductions achieved through increases in provincial payments to local governments.

B. Provincial Sources of Revenue

The Commission examined a number of provincial sources of revenue which could be used by the provincial government to finance the recommendations proposed by the Commission or to bring about even further increases in payments to local governments and, hence, even further reductions in local property taxes:

- Tax on Motor Vehicle Fuels

  The Commission believes there is potential for use of the motor vehicle fuel tax base to assist in the funding of local governments. All provinces in Canada, with the exception of Saskatchewan and Alberta, have a tax of approximately 20% of the retail price of fuels. A sales tax of gasoline and diesel fuel of 1¢ per liter would raise approximately $20 million in revenue.

  The fuel tax could be considered as a dedicated tax to finance the proposed urban and rural unconditional capital grant programs. A tax of about 1.2¢ per liter would fund the 2 programs. Much of the capital expenditures of municipalities is transportation-related, and the tax could be looked upon as a user charge for transportation infrastructure. It would provide an automatic means for increasing the value of the capital fund over time.

  Much of the operating expenditures of urban and rural municipalities is transportation-related. Accordingly, the fuel tax could also be considered as a user charge to assist in the financing of the revenue sharing programs.

- Sales Tax

  The retail sales tax in Saskatchewan is lower than in any other province, except Alberta which has no retail sales tax. Hence, this is a potential source.

- Personal Income Tax

  The fact that taxes on personal income in Saskatchewan are already relatively high would suggest to some that this is not a desirable potential source from which to finance additional payments to local governments.

  There is currently much discussion about reforms to the personal income tax system in terms of:

  — Broadening the tax base and rationalizing exemptions and deductions from income;

  — Reducing the marginal rates of taxation and strengthening work incentives; and

  — Simplifying the rules under which taxable income is determined.

  The Commission believes that, in the context of reforms which may take place in the personal income tax system, there may be greater potential for the use of this source of revenue for the financing of additional payments to local governments.

- Corporate Income Tax

  Corporate income taxes are higher in Saskatchewan than in any other province, and the yield is relatively small. The Commission believes this is an unlikely source for financing additional payments to local governments.

- Resource Revenues

  The volatility of these revenue sources make them unsuitable as a means of financing payments to local governments.

The Commission has not made specific recommendations on the rates of taxation which should be applied to the foregoing provincial tax bases. The Commission did not undertake a detailed study of the incidence of taxation which would have arisen from the use of the different forms of taxation because this would have been a task of major proportions, and it would have been beyond the mandate of the Commission. In any event, the Commission notes that the provincial government has numerous responsibilities in addition to providing financial assistance to local governments. A review of all provincial government responsibilities would be required in order to come to conclusions on the respective rates to be applied to the various tax bases.

9. OTHER MATTERS

The Commission recommends that the provincial government establish a mechanism for an indepth review of issues and questions relating to the structure of local governments.

The Commission was deeply impressed by the seriousness of economic and social conditions of the North and believes that processes and mechanisms other than this particular Commission are required to address them.

The Commission recommends that municipalities continue to be required to levy uniform mill rates on different classifications of assessment and that municipalities not be given the authority to vary the incidence of taxation through the use of variable mill rates.

The Commission recommends that standardized reporting and accounting be implemented for local governments.

The Commission recommends that the provincial government adopt practices which will facilitate long-term capital planning by local governments.

The Commission recommends that provincial authorities devote more resources to the diligent development and maintenance of data on capital and operating revenues and expenditures of local governments, to assist in the ongoing evaluation and development of policy.

10. SUMMARY

The Commission has addressed a wide range of issues and has made recommendations which will strengthen and improve the fairness in the local tax base, provide for equality in the ability of local governments to provide comparable services at comparable local tax rates, and provide for the capital needs of local governments on an equitable basis.

The Commission has also addressed some fundamental issues relating to the governance and funding of hospitals and has proposed a new foundation grant system for libraries.

While the Commission's recommendations were focused primarily upon improving equity, they would also have the effect of lowering property taxes in Saskatchewan below the national average.

The Commission identified options for bringing about further reductions in the reliance on the property tax.

The Commission identified potential provincial revenue sources that could be used to finance its recommendations or to finance additional payments to local governments.

In short, the Commission has made a broad range of recommendations which will both strengthen local governments and greatly improve the fairness in their financing.

APPENDICES

APPENDIX I-1

OPERATING EXPENDITURES OF URBAN MUNICIPALITIES

								Fiscal Services				
Year	General Government	Protective Services	Transportation	Environmental Health Services	Public Health Services	Environmental Development Services	Recreation and Cultural Services	Short-Term Debt	Transfers to Capital Fund	Transfers to Other Funds	Other Fiscal Service Expenditures	Total
1971	$ 8,640,673	$16,892,742	$11,590,798	$ 4,348,025	$ 5,284,026	$ 539,062	$ 7,103,553	$13,824,801	$ 3,098,172	$1,149,345	$ 5,758,879	$ 78,230,076
1972	9,045,202	18,242,486	12,468,414	5,608,200	5,773,072	796,046	8,196,511	13,347,263	4,343,485	1,475,732	8,016,054	87,312,465
1973	9,835,961	20,929,875	13,035,678	5,999,517	3,881,176	1,144,974	9,014,879	13,325,963	4,836,156	2,944,006	7,496,302	92,444,487
1974	11,846,268	25,308,866	16,400,188	6,927,220	4,515,286	1,307,582	10,520,355	13,415,188	9,502,408	1,672,083	9,314,609	110,730,053
1975	15,395,107	31,369,188	18,460,075	8,969,300	5,949,705	2,479,574	13,402,727	13,689,362	12,157,463	1,753,786	13,492,076	137,118,363
1976	18,940,245	36,966,079	24,277,293	6,955,763	6,183,120	2,318,810	16,993,025	2,576,444	25,834,355	1,712,076	22,666,758	165,423,968
1977	20,997,134	42,596,096	22,762,137	7,776,699	7,505,308	3,561,586	18,998,485	3,241,992	28,301,290	775,596	32,178,924	188,695,247
1978	23,251,039	49,029,506	31,085,540	8,299,770	10,991,102	3,884,136	24,361,347	3,721,813	32,868,407	2,338,581	27,013,278	216,844,519
1979	27,357,329	55,644,770	38,248,239	9,386,149	11,478,537	5,019,228	29,056,528	2,916,624	40,709,532	1,142,869	36,871,874	257,831,679
1980	31,463,769	63,322,686	44,436,314	10,523,404	12,475,590	5,474,834	33,778,767	2,908,326	47,840,803	2,837,561	29,192,092	284,254,146
1981	37,960,331	72,507,190	40,637,050	11,134,276	14,339,454	5,325,214	38,943,100	2,950,780	53,014,040	5,239,582	30,002,231	312,053,248
1982	44,676,223	85,643,182	49,435,265	12,859,773	17,565,365	6,493,499	46,297,368	3,347,391	55,131,494	5,035,758	33,067,421	359,552,739
1983	49,004,001	93,079,336	49,219,160	14,129,136	19,974,804	6,524,666	50,823,346	3,384,625	54,001,568	5,067,175	33,211,818	378,419,635
1984	54,244,737	98,051,890	61,955,362	14,769,431	13,927,640	6,996,081	53,285,548	3,522,390	54,595,899	6,782,633	37,414,052	405,545,663

NOTES:

1. Prior to 1976, figures include long-term debt; for 1976 and later years, long-term debt is included in Transfers to Capital Fund.

2. Prior to 1978, Regional Library Levy, Regional Parks, Sanatoria Levy, Public Health Levy, and Welfare Per Capita Levy were included in the "Fiscal Services" category. For 1978 and subsequent years, those expenditures have been allocated to the "Recreation and Cultural Services" or the "Public Health Services" category.

3. General government includes office and administration expenses and remuneration for aldermen.

4. Transportation includes expenditures for machinery and equipment, street, and sidewalk maintenance, and snow removal.

5. Environmental health includes expenses for waste collection and disposal.

6. Public Health Services includes municipal payments of the public health and social assistance levies, cemeteries, and general public health and social services expenses.

7. Environmental development includes expenditures for planning, zoning, housing projects and business districts and industrial development.

8. Recreation and culture includes expenditures for swimming pools, skating rinks, golf courses, libraries and museums.

9. Within the "Fiscal Services" category, short-term debt charges includes discounts on taxes, interest on short-term loans, and bank service charges; transfers to the capital fund includes transfers for capital expenditures and long-term debt repayment; transfers to other funds includes increases to or establishment of new capital trust funds; other fiscal services includes frontage taxes on municipally owned property and recovery of previous years' deficits.

SOURCE: Reports from Department of Municipal Affairs and Department of Urban Affairs.

Local Government Finance Commission
September, 1986

APPENDIX I-2

OPERATING REVENUES OF URBAN MUNICIPALITIES

Year	Property Taxes and Related Grants-In-Lieu of Taxes[1]	Other Taxes and S.P.C. Payments[2]	Services Provided to Other Governments	Sales of Services	Other Revenue From Own Sources[3]	Unconditional Grants	Conditional Grants[4]	Utility Surplus[5]	Internal Transfers[6]	Total Operating Revenues
1971	$ 43,624,264	$ 10,923,326	$ 54,009	$ 3,537,714	$ 6,941,401	$ 204,676	$ 6,237,036	$ 5,430,370	$ 2,713,173	$ 79,665,969
1972	47,297,299	10,974,661	59,915	5,093,939	9,752,776	106,515	7,232,159	5,235,926	4,172,041	89,925,231
1973	50,823,983	10,902,306	67,600	6,179,789	9,683,217	8,482	5,445,663	5,286,766	6,892,226	95,290,032
1974	54,627,517	11,586,480	89,284	6,516,291	12,616,689	8,056,881	7,725,154	4,943,488	8,369,106	114,530,890
1975	63,717,883	12,736,274	90,270	9,773,882	14,084,946	14,204,191	10,737,862	3,891,241	8,892,268	138,131,817
1976	75,508,093	16,179,021	123,261	9,068,828	20,820,769	14,341,709	12,290,393	4,802,656	14,175,490	167,310,220
1977	87,776,487	18,379,535	150,604	9,290,975	20,161,044	16,505,004	16,012,721	6,649,582	19,136,178	194,062,130
1978	96,593,648	21,320,399	154,199	11,456,781	24,636,374	33,585,869	12,302,157	7,791,033	16,292,366	224,132,826
1979	103,202,558	23,812,471	213,518	16,954,021	33,257,701	44,374,043	15,007,911	8,006,086	19,571,080	264,399,389
1980	117,349,226	25,454,252	257,725	17,947,498	33,400,999	46,864,321	13,883,650	7,328,102	26,909,450	289,395,223
1981	138,242,075	29,017,349	255,235	16,818,806	42,804,557	51,608,588	11,893,682	7,888,678	27,568,230	326,097,202
1982	157,800,523	35,737,961	293,705	19,333,421	43,039,989	57,532,879	14,569,889	8,106,236	27,696,610	364,111,213
1983	171,918,880	37,028,793	303,866	21,386,979	41,590,823	61,481,419	15,700,665	10,743,666	22,968,518	383,123,609
1984	178,695,112	43,688,269	626,111	31,774,442	47,041,293	64,564,722	8,071,073	14,299,390	25,247,644	414,008,056

NOTES:

[1] Property taxes include the net municipal tax levy and potash tax sharing payments. Related grants-in-lieu of taxes include all grants-in-lieu of taxes based on assessment.

[2] Other taxes include frontage taxes, or local improvement charges, special levies, amusement taxes, and trailer licence fees. S.P.C. payments include S.P.C. surcharges and S.P.C. gas and electric grants.

[3] Revenues in this category include fines, licences and interest revenue.

[4] Conditional grants are primarily provincial grants, but include some minor transfers from the federal government and local governments.

[5] Prior to 1976, Transfers from Other Funds for Towns and Villages were included under the heading "Utility Surplus". Utility surplus actually transferred to the operating revenues of the municipalities. Some utility surpluses are retained in the utility fund accounts.

[6] Revenues in this category include transfers from allowances, reserves, capital funds, and previous year's surplus.

SOURCE: Reports from Department of Municipal Affairs and Department of Urban Affairs.

Local Government Finance Commission
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APPENDIX I-3

PERCENTAGE DISTRIBUTION OF OPERATING EXPENDITURES OF URBAN MUNICIPALITIES

Year	General Government	Protective Services	Transportation	Environmental and Public Health Services	Environmental Development Services	Recreation and Cultural Services	Fiscal Services
1971	11.0%	21.6%	14.8%	12.3%	0.7%	9.1%	30.4%
1972	10.4	20.9	14.3	13.0	0.9	9.4	31.1
1973	10.6	22.6	14.1	10.7	1.2	9.8	30.9
1974	10.7	22.9	14.8	10.3	1.2	9.5	30.6
1975	11.2	22.9	13.5	10.9	1.8	9.8	30.0
1976	11.4	22.3	14.7	7.9	1.4	10.3	31.9
1977	11.1	22.6	12.1	8.1	1.9	10.1	34.2
1978	10.7	22.6	14.3	8.9	1.8	11.2	30.4
1979	10.6	21.6	14.8	8.1	1.9	11.3	31.7
1980	11.1	22.3	15.6	8.1	1.9	11.9	29.1
1981	12.2	23.2	13.0	8.2	1.7	12.5	29.2
1982	12.4	23.8	13.7	8.5	1.8	12.9	26.9
1983	12.9	24.6	13.0	9.0	1.7	13.4	25.3
1984	13.4	24.2	15.3	7.1	1.7	13.1	25.2

NOTE: Figures may not add to 100.0 because of rounding.

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APPENDIX I-4

PERCENTAGE DISTRIBUTION OF OPERATING REVENUES OF URBAN MUNICIPALITIES

Year	Property Taxes and Related Grants-In-Lieu of Taxes	Other Taxes and S.P.C. Payments	Services to Other Governments and Sales of Services	Other Revenue from Own Sources	Unconditional Grants	Conditional Grants	Utility Surplus	Internal Transfers
1971	54.8%	13.7%	4.5%	8.7%	0.3%	7.8%	6.8%	3.4%
1972	52.6	12.2	5.7	10.8	0.1	8.0	5.8	4.6
1973	53.3	11.4	6.6	10.2	—	5.7	5.5	7.2
1974	47.7	10.1	5.8	11.0	7.0	6.7	4.3	7.3
1975	46.1	9.2	7.1	10.2	10.2	7.8	2.8	6.4
1976	45.1	9.7	5.5	12.4	8.6	7.3	2.9	8.5
1977	45.2	9.5	4.9	10.4	8.5	6.3	3.4	9.9
1978	43.1	9.5	5.2	11.0	15.0	5.5	3.5	7.3
1979	39.0	9.0	6.5	12.6	16.8	5.7	3.0	7.4
1980	44.4	8.8	6.3	11.5	16.2	4.8	2.5	9.3
1981	42.4	8.9	5.2	13.1	15.8	3.6	2.4	8.5
1982	43.3	9.8	5.4	11.8	15.8	4.0	2.2	7.6
1983	44.9	9.7	5.7	10.9	16.0	4.1	2.8	6.0
1984	43.2	10.6	7.8	11.4	15.6	1.9	3.5	6.1

NOTE: Totals may not add to 100.0 because of rounding.

Local Government Finance Commission

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APPENDIX I-5

OPERATING EXPENDITURES OF RURAL MUNICIPALITIES[1]

Year	General Government	Protective Services	Transportation	Environmental Health and Public Health Services	Environmental and Developmental Services	Recreation Cultural Services	Fiscal Services[2]	Total[2]
1971	$ 4,753,265	$ 172,734	$31,892,966	$ 157,980	$ 533,079	$ 89,297	$ 5,245,599	$ 42,844,920
1972	5,089,816	171,433	32,220,944	178,082	558,012	129,046	6,103,101	44,450,434
1973	5,561,864	167,439	30,877,718	202,284	680,562	83,252	6,769,251	44,342,370
1974	6,399,811	320,266	40,705,773	275,754	889,393	114,946	8,270,642	56,976,585
1975	7,504,016	434,645	49,808,467	285,659	862,793	161,487	9,271,617	68,328,684
1976	8,726,023	562,144	52,702,347	250,117	670,290	191,341	12,128,287	75,230,549
1977	9,410,546	492,034	48,608,591	340,663	761,603	278,367	13,263,104	73,154,908
1978	10,437,033	877,499	53,979,278	943,441	824,018	915,191	13,871,426	81,847,886
1979	11,361,043	1,552,931	64,306,051	850,821	921,350	1,220,998	15,480,678	95,693,872
1980	12,609,069	1,930,902	70,008,046	905,075	922,761	1,659,024	16,847,960	104,882,837
1981	13,968,732	2,276,986	78,233,301	1,161,778	1,223,666	1,831,998	21,328,616	120,025,077
1982	15,684,934	2,949,576	89,473,050	1,058,369	1,261,801	1,929,458	20,980,075	133,337,263
1983	16,423,557	2,094,490	92,209,960	1,211,285	1,389,453	2,311,307	22,193,441	137,833,493
1984	17,725,472	2,242,012	87,794,357	1,388,663	1,387,948	2,408,691	25,132,096	138,079,239

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[1] Local Improvement Districts have been included.

[2] There have been some minor inconsistencies in the component of the category of expenditure, but this has impacted very little on the total amount and the trends.

SOURCES: Reports from Department of Municipal Affairs and Department of Rural Development.

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APPENDIX I-6

OPERATING REVENUES OF RURAL MUNICIPALITIES[1]

Year	Net Property Taxes and Grants-in-lieu of Taxes[2]	Total Other Taxes[3]	Services to Other Governments	Sales of Services	Other Revenue from Own Sources	Unconditional Grants	Conditional Grants[4]	Other Transactions[5]	Total
1971	$26,829,072	$ 62,213	$ 7,048	$ 626,381	$1,989,140	$ 2,955,027	$11,310,946	$ 605,038	$ 44,384,865
1972	27,770,928	90,358	9,702	643,234	2,113,258	2,956,977	11,550,208	762,573	45,897,238
1973	28,951,945	110,844	33,289	706,471	2,186,042	3,196,033	10,711,314	992,035	46,889,973
1974	33,436,564	199,594	13,490	930,514	3,064,604	3,617,565	16,413,354	1,349,100	59,024,785
1975	38,735,049	178,205	90,616	932,832	3,271,400	5,299,122	19,409,235	1,739,413	69,655,872
1976	45,345,058	411,489	48,701	1,180,230	3,023,020	5,511,258	20,017,561	1,876,307	77,413,624
1977	49,454,560	246,720	66,402	1,355,062	2,596,223	5,939,654	15,765,097	1,597,320	77,021,038
1978	52,114,461	326,201	120,864	1,277,598	3,189,047	10,408,026	15,109,956	2,132,744	84,678,897
1979	56,446,377	277,790	13,126	1,988,096	4,148,271	12,738,326	19,500,932	2,870,660	97,983,578
1980	63,028,059	349,250	41,826	1,818,583	5,147,027	12,467,652	22,012,705	2,895,711	107,760,813
1981	71,161,793	360,085	110,508	2,366,561	6,854,132	13,601,666	25,212,248	4,044,232	123,711,225
1982	80,606,050	1,212,163	77,415	2,054,831	6,622,348	15,001,360	27,194,209	4,214,988	136,983,364
1983	85,665,621	368,283	73,386	2,422,592	6,070,462	15,985,296	26,168,562	4,824,965	141,579,087
1984	90,557,966	374,509	96,972	2,252,619	7,169,664	16,756,502	26,597,779	3,280,145	147,086,156

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[1] Statistics for Local Improvement Districts are included.
[2] Property taxes and related grants-in-lieu of taxes include the net municipal levy, potash tax sharing and all grants-in-lieu of taxes.
[3] Other taxes include local improvement charges, amusement taxes, special levies, and trailer licence fees.
[4] Conditional Grants are primarily provincial grants, but include some minor transfers from the federal government and local governments.
[5] Other transactions include transfers from allowances, reserves, surplus, other funds, utility surplus (sewer and water, electric light).

SOURCE: Reports from Department of Municipal Affairs and Department of Rural Development.

Local Government Finance Commission
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APPENDIX I-7

PERCENTAGE DISTRIBUTION OF OPERATING EXPENDITURES OF RURAL MUNICIPALITIES

Year	General Government	Protective Services	Transportation	Environmental and Public Health Services	Environmental Development Services	Recreation and Cultural Services	Fiscal Services
1971	11.1%	0.4%	74.4%	0.4%	1.2%	0.2%	12.3%
1972	11.5	0.4	72.5	0.4	1.3	0.3	13.7
1973	12.5	0.4	69.4	0.9	1.5	0.2	15.2
1974	11.2	0.6	71.4	0.5	1.6	0.2	14.5
1975	11.0	0.6	72.9	0.3	1.3	0.2	13.7
1976	11.6	0.8	70.1	0.4	0.9	0.3	16.0
1977	12.9	0.7	66.5	0.5	1.0	0.4	18.1
1978	12.8	1.1	66.0	1.1	1.0	1.1	16.9
1979	11.9	1.6	67.2	0.9	1.0	1.3	16.2
1980	12.0	1.8	66.8	0.9	0.9	1.6	16.0
1981	11.6	1.9	65.2	1.0	1.0	1.5	17.7
1982	11.8	2.2	67.1	0.8	1.0	1.5	15.8
1983	11.9	1.5	66.9	0.9	1.0	1.7	16.1
1984	12.8	1.6	63.6	1.0	1.0	1.7	18.2

NOTE: Figures may not add to 100.0 because of rounding.

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APPENDIX I-8

PERCENTAGE DISTRIBUTION OF OPERATING REVENUES OF RURAL MUNICIPALITIES

Year	Property Taxes and Grants-In-Lieu of Taxes	Total Other Taxes	Unconditional Transfers	Conditional Transfers	Total Transfers	Other Revenues
1971	60.4%	0.1%	6.8%	25.5%	**32.3%**	7.2%
1972	60.5	0.2	6.5	25.3	**31.8**	7.6
1973	61.7	0.2	6.9	22.8	**29.7**	8.5
1974	56.6	0.3	6.1	27.8	**33.9**	9.1
1975	55.6	0.3	7.6	27.8	**35.4**	8.8
1976	58.6	0.5	7.1	25.9	**33.0**	7.9
1977	64.2	0.4	7.7	20.5	**28.2**	7.3
1978	61.5	0.4	12.3	17.8	**30.1**	8.0
1979	57.6	0.3	13.0	19.9	**32.9**	9.3
1980	58.5	0.3	11.6	20.4	**32.0**	9.2
1981	57.5	0.3	11.0	20.4	**31.4**	10.8
1982	58.8	0.9	10.9	19.9	**30.8**	9.5
1983	60.5	0.3	11.3	18.5	**29.8**	9.4
1984	61.6	0.3	11.4	18.1	**29.5**	8.7

NOTE: Figures may not add to 100.0 because of rounding.

Local Government Finance Commission
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APPENDIX I-9
OPERATING EXPENDITURES BY SCHOOL DIVISIONS[1]

Year	Administration	Instruction	Plant Operation	Fees	Pupil Transportation	Ancillary	Debt Retirement	Capital from Revenue	Other Educational	Provision for Reserves	Total	Total Net of Fees
1971	$ 3,606,730	$109,495,577	$17,575,205	$ 5,144,293	$14,921,422	$ 390,978	$11,723,887	$ 5,784,011	$ 438,000	$ 1,015,662	$170,095,767	$164,951,474
1972	3,872,825	120,811,295	19,240,400	6,851,623	15,324,163	490,150	11,945,500	6,249,220	597,000	991,996	185,374,175	179,567,549
1973	4,305,927	132,062,227	20,312,395	7,126,084	17,254,831	538,601	11,837,084	2,826,985	339,000	1,259,880	197,863,014	190,736,930
1974	4,905,816	147,981,673	23,463,126	9,770,431	19,522,093	670,404	12,188,171	4,110,799	564,000	1,389,978	224,566,491	214,796,060
1975	6,069,334	170,103,233	28,382,830	12,343,748	22,732,881	928,420	12,339,898	6,211,357	905,000	1,754,512	261,771,213	249,427,465
1976	6,919,617	207,107,784	33,774,603	15,954,053	26,064,878	1,197,279	13,812,712	5,975,139	1,719,000	1,741,956	314,267,021	298,312,968
1977	7,872,140	227,129,612	38,348,816	18,010,747	28,855,174	1,209,636	16,910,758	6,748,351	2,259,000	1,879,014	349,223,248	331,212,501
1978	8,816,117	248,631,203	42,872,577	20,995,635	31,425,482	1,484,541	20,197,345	4,826,988	2,600,000	2,184,116	384,034,004	363,038,369
1979	10,068,530	274,258,804	48,163,173	23,553,470	34,041,233	1,450,090	21,588,751	3,943,752	2,820,000	2,488,671	422,376,474	398,823,004
1980	11,341,896	302,955,252	51,847,210	25,777,246	37,340,320	1,678,944	24,010,428	5,012,151	3,601,000	2,784,116	466,348,563	440,571,317
1981	12,948,069	348,553,645	57,232,440	29,454,086	43,672,419	2,048,489	27,469,632	6,083,191	799,687	2,946,578	531,208,236	501,754,150
1982	14,406,544	400,620,216	66,552,402	34,428,942	49,033,747	1,925,312	33,173,734	8,627,338	870,648	3,935,434	613,574,317	579,145,375
1983	15,214,356	435,522,714	69,492,591	38,339,737	51,811,630	2,421,817	36,521,455	11,856,690	1,179,991	3,808,045	666,169,026	627,829,289
1984	16,426,946	459,926,492	74,578,192	31,358,060	54,462,304	2,510,375	45,135,884	12,056,047	1,477,379	5,599,755	703,531,434	672,173,374
1985 est.	17,992,944	477,736,258	78,426,427	31,781,789	57,982,447	2,508,844	52,698,476	6,908,780	1,894,658	4,960,624	732,891,247	701,109,458
1985 est.[2]	19,300,811	490,958,209	83,371,243	34,233,573	58,788,712	3,202,544	53,687,650	6,914,010	2,763,658	5,250,368	758,470,778	724,237,205

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[1] Except as indicated, the expenditures do not include data on school divisions formerly under the jurisdiction of the Department of Northern Saskatchewan, to permit consistent year-to-year comparisons.

[2] Includes data for divisions formerly under the jurisdiction of the Department of Northern Saskatchewan.

SOURCE: Department of Education Annual Reports and budget analysis documents.

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APPENDIX I-10

OPERATING REVENUES OF SCHOOL DIVISIONS[1]

Year	Net Proceeds From Taxes and Grants-In-Lieu	Department Operating Grants	Fee Receipts	Other Educational Services		Ancillary Services	Other Revenue	Total Revenue	Net Revenues[2]
1971	$ 82,258,126	$ 77,786,597	$ 8,810,929		$ 1,270,114		$ 1,372,807	$171,498,574	$166,354,281
1972	84,554,759	88,260,999	9,310,567		1,397,315		1,881,122	185,404,763	178,553,140
1973	86,361,193	97,802,005	10,617,815		1,300,784		1,796,963	197,878,760	190,752,676
1974	92,259,766	115,318,986	13,134,500		1,405,798		2,607,609	224,726,659	214,956,228
1975	101,552,144	140,319,315	16,220,823		1,651,612		2,924,113	262,668,007	250,324,259
1976	118,465,461	168,730,703	20,310,816		2,171,760		3,914,797	313,593,537	297,639,484
1977	137,579,460	185,395,084	23,054,656		2,166,747		4,313,582	352,509,529	334,498,782
1978	149,341,623	206,222,326	26,183,459		2,330,681		5,066,756	389,144,845	368,149,210
1979	162,950,700	221,014,466	29,281,140		2,519,973		6,467,738	422,234,017	398,680,547
1980	189,084,435	235,883,232	32,389,095		2,805,258		6,593,588	466,755,608	440,978,362
1981	223,936,987	256,202,225	37,113,067	$ 771,557		$2,460,577	8,844,396	529,328,809	499,874,723
1982	272,175,148	290,623,142	43,366,380	810,369		2,950,680	8,861,066	618,786,785	584,357,843
1983	297,760,012	313,108,226	48,049,792	906,627		2,964,000	9,180,574	671,969,231	633,629,494
1984	321,733,084	328,399,517	42,104,384	1,147,493		3,016,518	11,512,767	707,913,763	676,555,703
1985 est.	328,145,259	347,924,655	41,356,175	1,223,432		3,001,898	9,675,738	731,327,157	699,545,368
1985 est.[3]	329,936,246	368,063,559	44,854,049	1,223,432		3,497,918	9,897,928	757,473,132	723,239,559

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[1] In order to have a consistent data base from year to year, the data for school divisions which were formerly Northern Saskatchewan are not included in this table, except as indicated.

[2] Only net fee receipts (total fee receipts minus fee expenditures) were included in this total in order to avoid double counting of fee revenue among school divisions.

[3] Includes data for divisions formerly under the jurisdiction of the Department of Northern Saskatchewan.

SOURCE: Department of Education Annual Reports and budget analysis documents.

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APPENDIX I-11

PERCENTAGE DISTRIBUTION OF OPERATING EXPENDITURES OF SCHOOL DIVISIONS

Year	Administration	Instruction	Plant Operation	Pupil Transportation	Ancillary	Debt Retirement	Capital from Revenue	Other Educational Services	Provision for Reserves	Total Net of Fees
1971	2.2%	66.4%	10.7%	9.0%	0.2%	7.1%	3.5%	0.3%	0.6%	100.0%
1972	2.2	67.3	10.7	8.5	0.3	6.7	3.5	0.3	0.6	100.0
1973	2.3	69.2	10.6	9.0	0.3	6.2	1.5	0.2	0.7	100.0
1974	2.3	68.9	10.9	9.1	0.3	5.7	1.9	0.3	0.6	100.0
1975	2.4	68.2	11.4	9.1	0.4	4.9	2.5	0.4	0.7	100.0
1976	2.3	69.4	11.3	8.7	0.4	4.6	2.0	0.6	0.6	100.0
1977	2.4	68.6	11.6	8.7	0.4	5.1	2.0	0.7	0.6	100.0
1978	2.4	68.5	11.8	8.7	0.4	5.6	1.3	0.7	0.6	100.0
1979	2.5	68.8	12.1	8.5	0.4	5.4	1.0	0.7	0.6	100.0
1980	2.6	68.8	11.8	8.5	0.4	5.4	1.1	0.8	0.6	100.0
1981	2.6	69.5	11.4	8.7	0.4	5.5	1.2	0.2	0.6	100.0
1982	2.5	69.2	11.5	8.5	0.3	5.7	1.5	0.2	0.7	100.0
1983	2.4	69.4	11.1	8.3	0.4	5.8	1.9	0.2	0.6	100.0
1984	2.4	68.4	11.1	8.1	0.4	6.7	1.8	0.2	0.8	100.0
1985 est.	2.6	68.1	11.2	8.3	0.4	7.5	1.0	0.3	0.7	100.0
1985 est.[1]	2.7	67.8	11.5	8.1	0.4	7.4	1.0	0.4	0.7	100.0

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[1] Only 1985 est.[1] includes data for school divisions formerly under the Department of Northern Saskatchewan.

Local Government Finance Commission
September, 1986

APPENDIX I-12

PERCENTAGE DISTRIBUTION OF OPERATING REVENUES OF SCHOOL DIVISIONS

Year	Net Proceeds From Taxes and Grants-in-Lieu	Department Operating Grants	Fee Receipts	Other Educational Services		Ancillary Services	Other Revenue	Net Revenues
1971	49.4%	46.8%	2.2%		0.8%		0.8%	100.0%
1972	47.4	49.4	1.4		0.8		1.1	100.0
1973	45.3	51.3	1.8		0.7		0.9	100.0
1974	42.9	53.6	1.6		0.7		1.2	100.0
1975	40.6	56.1	1.5		0.7		1.2	100.0
1976	39.8	56.7	1.5		0.7		1.3	100.0
1977	41.1	55.4	1.5		0.6		1.3	100.0
1978	40.6	56.0	1.4		0.6		1.4	100.0
1979	40.9	55.4	1.4		0.6		1.6	100.0
1980	42.9	53.5	1.5		0.6		1.5	100.0
1981	44.8	51.3	1.5	0.2%		0.5%	1.8	100.0
1982	46.6	49.7	1.5	0.1		0.5	1.5	100.0
1983	47.0	49.4	1.5	0.1		0.5	1.4	100.0
1984	47.6	48.5	1.6	0.2		0.4	1.7	100.0
1985 est.	46.9	49.7	1.4	0.2		0.4	1.4	100.0
1985 est.[1]	45.6	50.9	1.5	0.2		0.5	1.4	100.0

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[1] Only 1985 est.[1] includes data for school divisions formerly under D.N.S..

NOTE: Revenues from other educational services and ancillary services are combined during the years 1971 to 1980.

Local Government Finance Commission
September, 1986

APPENDIX I-13

OPERATING EXPENDITURES BY HOSPITAL BOARDS

Year	Salary and Wages		Drugs and Medical and Surgical Supplies		Other		Total
	$	% of Total	$	% of Total	$	% of Total	
1971	$ 61,551,880	66.5%	$ 6,253,280	6.7%	$ 24,812,772	26.8%	$ 92,617,932
1972	66,143,604	66.1	6,554,700	6.5	27,429,129	27.4	100,127,433
1973	71,740,923	66.8	6,712,748	6.2	28,951,384	27.0	107,405,055
1974	91,296,986	68.1	7,940,058	5.9	34,938,164	26.0	134,175,208
1975	108,331,577	67.3	9,829,623	6.1	42,775,001	26.6	160,936,201
1976	129,135,977	68.9	10,828,613	5.8	47,418,609	25.3	187,533,733
1977-78[1]	142,901,995	68.4	12,754,872	6.1	53,416,347	25.5	209,073,210
1978-79	156,690,516	68.4	14,248,638	6.2	58,166,247	25.4	229,105,401
1979-80	172,341,000	68.5	17,138,000	6.8	61,975,000	24.7	251,453,000
1980-81	210,616,000	69.6	19,957,000	6.6	71,953,000	23.8	302,526,000
1981-82	239,189,000	68.9	23,966,000	6.9	84,157,000	24.2	347,311,000
1982-83	288,360,000	69.7	28,297,000	6.8	97,310,000	23.5	413,967,000
1983-84	316,605,944	69.0	30,957,577	6.7	111,593,374	24.3	459,156,895
1984-85	333,665,565	68.5	34,283,914	7.0	119,324,703	24.5	487,274,182

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[1] 15 month fiscal year.

NOTE: 1979-80 to 1982-83 rounded to the nearest one thousand.

SOURCE: Statistics Canada, Hospital Annual Statistics (83-232), 1983-84; and Saskatchewan Hospital Services Plan, 1984-85.

Local Government Finance Commission
September, 1986

APPENDIX I-14

LOCAL LEVIES AS A PERCENTAGE OF TOTAL EXPENDITURES

Year	Total Operating Expenditures	Union Hospital Levies	Hospital Revenue Tax Levies	Total Levies[1]	Levies as % of Expenditures
1978	$229,105,401	$5,732,653	$267,739	$6,000,392	2.6%
1979	251,453,000	6,591,661	272,520	6,864,181	2.7
1980	302,526,000	7,217,869	281,659	7,499,528	2.5
1981	347,311,000	8,140,479	292,155	8,432,634	2.4
1982	413,967,000	8,934,017	305,242	9,239,259	2.2
1983	459,156,895	9,228,596	313,731	9,542,327	2.1
1984	487,274,182	9,534,580	311,606	9,846,186	2.0

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[1] Excludes monies provided to hospitals by municipalities under agreements under **The Hospital Revenue Tax Act.** In 1984, these are estimated to have amounted to $1.8 million. If this were added to the other levies, local levies would amount to $11.6 million, and it would represent approximately 2.4% of total expenditures.

Local Government Finance Commission
September, 1986

APPENDIX I-15

OPERATING EXPENDITURES OF PUBLIC LIBRARY BOARDS

	Regional Libraries				Municipal Libraries				
Year	Materials	Salaries	Other	Total Regional Library Expenditures[1]	Materials	Salaries	Other	Total Municipal Library Expenditures	Total Library Expenditures[1]
1971	$ 233,510	$ 422,533	$ 160,860	$ 816,903	$ 298,915	$1,210,434	$ 519,503	$ 2,028,852	$ 2,845,755
1972	205,160	528,664	244,954	978,778	312,967	1,352,116	697,871	2,362,954	3,341,732
1973	337,350	728,227	266,530	1,332,107	344,816	1,440,254	632,103	2,417,173	3,749,280
1974	529,287	1,164,366	354,696	2,048,349	386,588	1,625,043	783,567	2,795,198	4,843,547
1975	552,283	1,646,422	480,957	2,679,662	510,369	2,096,659	919,076	3,526,104	6,205,766
1976	587,447	1,945,450	549,418	3,082,315	683,122	2,322,546	1,166,623	4,172,291	7,254,606
1977	615,834	2,240,307	588,388	3,444,529	785,977	2,778,998	1,115,910	4,680,885	8,125,414
1978	696,689	2,527,759	672,578	3,897,026	926,582	3,194,295	1,772,609	5,893,486	9,790,512
1979	766,260	2,740,019	697,368	4,203,647	1,051,049	3,695,138	1,434,126	6,180,313	10,383,960
1980	890,153	3,105,445	835,297	4,830,895	1,194,057	4,210,960	2,034,311	7,439,328	12,270,223
1981	969,760	3,366,183	1,115,773	5,451,716	1,256,416	4,872,100	1,839,919	7,968,435	13,420,151
1982	1,098,377	3,475,552	1,206,581	5,780,510	1,464,485	5,672,490	2,082,067	9,219,042	14,999,552
1983	1,134,986	4,234,577	1,152,806	6,522,369	1,468,645	6,253,803	2,194,208	9,916,656	16,439,025
1984	1,207,557	4,487,949	1,560,435	7,255,941	1,596,682	6,694,980	3,088,391	11,380,053	18,635,994

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[1] Excludes "local branch operating expenditures". In 1984, this expenditure was $1,977,547.

SOURCE: Library Systems Statistical Summary, Saskatchewan Library.

Local Government Finance Commission
September, 1986

APPENDIX I-16

OPERATING REVENUES OF PUBLIC LIBRARY BOARDS

	Regional Libraries				Municipal Libraries				
Year	Local Levies	Provincial Grants	Other	Total Regional Library Revenues[1]	Local Levies	Provincial Grants	Other	Total Municipal Library Revenues	Total Library Revenues[1]
1971	$ 288,545	$ 514,081	$ 12,083	$ 814,709	$1,877,503	$125,966	$ 55,747	$ 2,059,216	$ 2,873,925
1972	353,521	626,406	18,761	998,688	2,130,782	133,105	53,045	2,316,932	3,315,620
1973	476,617	888,430	24,310	1,389,557	2,226,875	160,780	42,844	2,430,499	3,820,056
1974	607,551	1,332,539	34,810	1,974,900	2,558,556	227,311	39,200	2,825,067	4,799,967
1975	663,846	1,908,147	79,897	2,651,890	3,066,007	540,402	53,956	3,660,365	6,312,255
1976	846,075	2,360,961	64,957	3,271,993	3,339,175	482,340	199,191	4,020,706	7,292,699
1977	958,681	2,529,669	62,742	3,551,092	4,323,508	531,752	99,082	4,954,342	8,505,434
1978	1,096,064	2,745,868	67,262	3,909,194	4,944,691	586,837	396,489	5,928,017	9,837,211
1979	1,352,500	2,892,657	83,048	4,328,205	5,319,391	624,743	177,613	6,121,747	10,449,952
1980	1,583,209	3,100,805	142,324	4,826,338	6,428,748	683,342	195,400	7,307,490	12,133,828
1981	1,902,173	3,454,048	182,764	5,538,985	6,858,319	728,300	363,117	7,949,736	13,488,721
1982	2,055,810	3,901,148	222,592	6,179,550	8,032,180	835,834	333,035	9,201,049	15,360,599
1983	2,427,295	4,179,116	235,560	6,841,971	8,662,339	935,887	348,592	9,946,818	16,788,789
1984	2,663,011	4,393,655	194,656	7,251,322	10,325,810	976,434	306,172	11,608,416	18,859,738

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[1] Excludes "local branch operating revenues" for regional libraries. In 1984, this revenue was $2,016,870.

SOURCE: Library Systems Statistical Summary, Saskatchewan Library.

Local Government Finance Commission
September, 1986

APPENDIX I-17

PERCENTAGE DISTRIBUTION OF OPERATING EXPENDITURES OF PUBLIC LIBRARY BOARDS

	Regional Libraries			Municipal Libraries		
Year	Materials	Salaries	Other	Materials	Salaries	Other
1971	28.6%	51.7%	19.7%	14.7%	59.7%	25.6%
1972	21.0	54.0	25.0	13.3	57.2	29.5
1973	25.3	54.7	20.0	14.3	59.6	26.1
1974	25.8	56.9	17.3	13.8	58.2	28.0
1975	20.6	61.4	18.0	14.5	59.5	26.0
1976	19.1	63.1	17.8	16.4	55.6	28.0
1977	17.9	65.0	17.1	16.8	59.4	23.8
1978	17.9	64.9	17.2	15.7	54.2	30.1
1979	18.2	65.2	16.6	17.0	59.8	23.2
1980	18.4	64.3	17.3	16.1	56.6	27.3
1981	17.8	61.7	20.5	15.8	61.1	23.1
1982	19.0	60.1	20.9	15.9	61.5	22.6
1983	17.4	64.9	17.7	14.8	63.1	22.1
1984	16.6	61.9	21.5	14.0	58.8	27.2

Local Government Finance Commission
September, 1986

APPENDIX I-18

PERCENTAGE DISTRIBUTION OF OPERATING REVENUES OF PUBLIC LIBRARY BOARDS

	Regional Libraries			Municipal Libraries		
Year	Local Levies	Provincial Grant	Other	Local Levies	Provincial Grant	Other
1971	35.4%	63.1%	1.5%	91.2%	6.1%	2.7%
1972	35.4	62.7	1.9	92.0	5.7	2.3
1973	34.3	63.9	1.8	91.6	6.6	1.8
1974	30.8	67.5	1.7	90.6	8.0	1.4
1975	25.0	72.0	3.0	83.7	14.8	1.5
1976	25.9	72.1	2.0	83.0	12.0	5.0
1977	27.0	71.2	1.8	87.3	10.7	2.0
1978	28.0	70.3	1.7	83.4	9.9	6.7
1979	31.3	66.8	1.9	86.9	10.2	2.9
1980	32.8	64.2	3.0	88.0	9.3	2.7
1981	34.3	62.4	3.3	86.3	9.2	4.5
1982	33.3	63.1	3.6	87.3	9.1	3.6
1983	35.5	61.1	3.4	87.1	9.4	3.5
1984	36.7	60.6	2.7	89.0	8.4	2.6

Local Government Finance Commission
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APPENDIX I-19

PROPERTY TAXES AS A PERCENT OF G.D.P.P.[1]

Year	Saskatchewan Property Taxes as a Percent of G.D.P.P.	National Average Property Taxes as a Percent of G.D.P.P.
1968	4.7%	3.8%
1969	4.8	3.8
1970	5.1	3.8
1971	4.4	3.8
1972	4.5	3.6
1973	3.6	3.3
1974	2.9	3.0
1975	2.9	3.1
1976	3.0	3.2
1977	3.3	3.3
1978	3.1	3.3
1979	3.0	3.0
1980	2.7	3.0
1981	2.8	3.0
1982	3.2	3.0
1983	3.2	3.2
1984 est.	3.5	3.2
1985 est.	3.5	3.1
Weighted Average 1968 to 1985	3.3%	3.2%

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[1] Property taxes include local and provincial taxes on real property and business taxes.

SOURCE: Statistics Canada

Local Government Finance Commission
September, 1986

APPENDIX I-20

URBAN MUNICIPAL PROPERTY TAXES AND RELATED GRANTS-IN-LIEU OF TAXES IN CONSTANT DOLLARS

Year	Urban Municipal Property Taxes and Related Grants-in-Lieu of Taxes[1] (In Current $)	Consumer Price Index[2]	Urban Municipal Property Taxes and Related Grants-in-Lieu of Taxes (In Constant 1981 $)	% Change
1971	$ 43,624,264	42.7	$102,164,553	—
1972	47,297,299	44.6	106,047,756	3.8
1973	50,823,983	47.6	106,773,074	0.7
1974	54,627,517	52.1	104,851,280	(1.8)
1975	63,717,883	57.6	110,621,325	5.5
1976	75,508,093	62.7	120,427,581	8.9
1977	87,776,487	68.8	127,582,103	5.9
1978	96,593,648	75.0	128,791,531	0.9
1979	103,202,558	81.3	126,940,416	(1.4)
1980	117,349,226	89.5	131,116,454	3.3
1981	138,242,075	100.0	138,242,075	5.4
1982	157,800,523	109.0	144,771,122	4.7
1983	171,918,880	116.0	148,205,931	2.4
1984	178,695,112	121.1	147,559,960	(0.4)
Compound Average Annual % Change	11.5%	8.3%	2.9%	

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[1] Urban municipal property taxes include the municipal levy (net of cancellations and adjustments for the period 1976 to 1984) and the potash tax sharing receipts. The related grants-in-lieu of taxes include all property assessment-based grants-in-lieu of taxes and exclude the S.P.C. gas and electric grants.

[2] Regina Consumer Price Index, 1981 = 100.

SOURCE: Summary of annual urban municipal financial statements prepared by the Department of Urban Affairs.

Local Government Finance Commission
September, 1986

APPENDIX I-21

RURAL MUNICIPAL PROPERTY TAXES AND RELATED GRANTS-IN-LIEU OF TAXES IN CONSTANT DOLLARS

Year	Rural Municipal Property Taxes and Related Grants-in-Lieu of Taxes[1] (In Current $)	Consumer Price Index[2]	Rural Municipal Property Taxes and Related Grants-in-Lieu of Taxes (In Constant 1981 $)	% Change
1971	$26,829,072	42.7	$62,831,550	—
1972	27,770,928	44.6	62,266,654	(0.9)
1973	28,951,945	47.6	60,951,463	(2.1)
1974	33,436,564	52.1	64,177,666	5.3
1975	38,735,049	57.6	67,248,349	4.8
1976	45,345,058	62.7	72,320,667	7.5
1977	49,454,560	68.8	71,881,628	(0.6)
1978	52,114,461	75.0	69,485,948	(3.3)
1979	56,446,377	81.3	69,429,738	(0.1)
1980	63,028,059	89.5	70,422,412	1.4
1981	71,161,793	100.0	71,161,793	1.0
1982	80,606,050	109.0	73,950,505	3.9
1983	85,665,621	116.0	73,849,673	(0.1)
1984	90,557,966	121.1	74,779,493	1.3
Compound Average Annual % Change	9.8%	8.3%	1.3%	

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[1] Data includes L.I.D.s from 1971 to 1977. Municipal property taxes include the municipal tax levy (net of cancellations and adjustments for the 1976 to 1984 period), and the potash tax sharing receipts. All grants-in-lieu of taxes are included.

[2] Regina consumer price index, 1981 = 100.

SOURCE: Summary of annual rural municipal financial statements prepared by the former Department of Municipal Affairs and the Department of Rural Development.

Local Government Finance Commission
September, 1986

APPENDIX I-22
PROPERTY TAXES AND HOUSE PRICES

	Market Value of House[1]	Property Taxes	Taxes as a % of Market Value
Victoria	$ 88,000	$1,100	1.3%
Vancouver (East)	124,000	1,224	1.0
Edmonton (Millwoods)	75,500	1,200	1.6
Calgary (Oakridge)	93,000	1,350	1.5
Regina (North)	85,000	1,750	2.1
Saskatoon (North)	86,000	1,250	1.5
Winnipeg (River Heights)	88,000	1,700	1.9
Toronto (Don Mills)	125,000	1,500	1.2
Toronto (Mississauga)	105,600	1,370	1.3
Ottawa (Southern)	110,000	1,570	1.4
Montreal (Beaconsfield)	75,000	1,400	1.9
Montreal (St. Laurent)	88,000	1,500	1.7
Quebec City (Ste. Foy)	71,000	1,400	2.0
Fredericton	79,000	800	1.0
Halifax (West)	129,000	1,575	1.2
Charlottetown	79,000	750	0.9
St. John's (Mount Pearl)	87,000	750	0.9

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[1] Detached 3 bedroom bungalow with 1,200 square feet and a one-car garage located on a 5,500 square foot fully serviced lot.

SOURCE: Royal LePage October, 1985 Quarterly Survey of Canadian House Prices.

Local Government Finance Commission
September, 1986

APPENDIX I-23

INTERPROVINCIAL COMPARISON OF PROPERTY TAXES PAID ON THE BEST FARMLAND

	Alberta	Saskatchewan	Manitoba
Assessed Value[1]			
Quarter-Section	$ 38,400	$ 10,560	$ 12,000
One Section	153,600	42,240	48,000
Mill Rate[2]			
Municipal	8.78 mills	48.0 mills	53.0 mills
School	7.214	55.1	74.8
Other	0.106	8.0	—
TOTAL	16.1 mills	111.1 mills	127.8 mills
Property Tax			
Quarter-Section	$ 618	$ 1,173	$ 1,534
One Section	2,473	4,693	6,134
Ratio to Highest	40.3%	76.5%	100%

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[1] The assessed value of the best farmland in each province was obtained from their respective assessment departments/agencies. For Alberta, the land is located in the County of Red Deer and excludes any additional value due to proximity to a major urban centre and paved roads. For Saskatchewan, the land is located in the Rural Municipality of Star City. For Manitoba, the land is located in the Rural Municipality of Stanley.

[2] 1985 mill rates for the rural municipality in which the land is located. In the case of Saskatchewan, the school mill rate is the average of several different school mill rates for parts of the rural municipality, and there is an 8 mill levy for hospitals. In Alberta, there is a 0.106 mill levy for the senior citizen foundation to finance the local share of the operating deficit of a senior citizens' lodge. In Manitoba, the school mill rate consists of a 42.5 mill provincial levy and a 32.3 mill local levy.

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September, 1986

APPENDIX I-24

PROPERTY TAXES PAID BY FARMERS AS A PERCENT OF REALIZED NET FARM INCOME

Year	Alberta	Saskatchewan	Manitoba
1979	7.5%	9.5%	16.2%
1980	9.0	11.1	19.2
1981	8.5	10.6	23.7
1982	11.3	14.1	28.6
1983	12.8	19.4	26.6
1984	11.2	14.4	19.6
6 Year Weighted Average	10.0%	12.9%	21.8%

NOTES:

1. Property taxes paid by farmers is based upon gross property taxes paid by farmers before any property tax credits or rebates.
2. Realized net farm income is defined as gross farm income minus operating expenses and depreciation charges.

SOURCE: Statistics Canada unpublished data.

Local Government Finance Commission
September, 1986

APPENDIX I-25

INTERPROVINCIAL COMPARISON OF PER CAPITA PROPERTY TAXES

1985

Province	Estimated 1985 Property Taxes[1]	Estimated Tax Credits and Rebates	Estimated 1985 Population	Gross Property Taxes Per Capita	Rank	Tax Credits and Rebates Per Capita	Net Property Taxes Per Capita	Rank
	($'000)	($'000)	('000)					
Ontario	$ 6,569,018	$ 605,000	9,064.2	$724.72	1	$ 66.75	$657.97	1
Manitoba	709,656	162,564	1,070.6	662.86	2	151.84	511.02	5
Alberta	1,520,310	89,256	2,358.0	644.75	3	37.85	606.90	2
British Columbia	1,807,934	272,151	2,884.7	626.73	4	94.34	531.80	4
Saskatchewan	633,769	25,000	1,017.8	622.69	5	24.56	598.13	3
Quebec	2,513,478	155,250	6,582.7	381.83	6	23.58	358.25	6
Nova Scotia	275,443	—	879.8	313.25	7	—	313.25	7
New Brunswick	204,905	20,171	719.6	284.75	8	28.03	256.72	8
Prince Edward Island	28,835	—	127.4	226.33	9	—	226.33	9
Newfoundland	71,888	—	580.7	123.80	10	—	123.80	10
All Provinces	$14,335,236	$1,329,392	25,285.5	$566.94		$ 52.57	$514.37	

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[1] Property taxes include local and provincial taxes on real property and business taxes.

SOURCE: Statistics Canada.
Saskatchewan Department of Finance.

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APPENDIX I-26

SCHOOL PROPERTY TAXES AND GRANTS-IN-LIEU OF TAXES IN CONSTANT DOLLARS

Year	School Property Taxes and Grants-In-Lieu of Taxes (In Current $)	Consumer Price Index[1]	School Property Taxes and Grants-In-Lieu-of Taxes (In Constant $)	% Change
1971	$ 82,258,126	42.7	$192,641,981	—
1972	84,554,759	44.6	189,584,661	(1.6)%
1973	86,361,193	47.6	181,431,078	(4.3)
1974	92,259,766	52.1	177,082,084	(2.4)
1975	101,552,144	57.6	176,305,806	(0.4)
1976	118,465,461	62.7	188,940,129	7.2
1977	137,579,460	68.8	199,970,145	5.8
1978	149,341,623	75.0	199,122,164	(0.4)
1979	162,950,700	81.3	200,431,365	0.7
1980	189,084,435	89.5	211,267,525	5.4
1981	223,936,987	100.0	223,936,987	6.0
1982	272,175,148	109.0	249,701,971	11.5
1983	297,760,012	116.0	256,689,666	2.8
1984	321,733,084	121.1	265,675,544	3.5
Compound Average Annual % Change	11.1%	8.3%	2.5%	

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[1] Regina Consumer Price Index 1981 = 100.

SOURCE: Summary of school division financial statements from the Department of Education.

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APPENDIX II-1

PROPERTY EXEMPT FROM TAXATION IN CANADA[1]

(By Function or Owner of Property)

Type of Property	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Crown Property	x	x	x	x	x	x	except crown corp.	x	?	x
Churches	x	x	x	x	x	x	x	x	x	x
Church Halls	x							used for religious purposes	if revenue under $500/ annum	
Residences of Clergy						x	x			
Seminaries					x					
Retreat Houses				x						
Religious Instit.				x by bylaw						
Educational Establishments	x	x	x	x	x	x	x	x	x	x
University		x								
Hospitals	x	x	x	x	public			x		x
Public Library	x	x	x			x				x
Cemeteries	x	x	x	x	x	x	non-profit - x	church - x	non-profit x	
Indian Lands	x		x	x	x					
Municipal Property	taxing municipal-ity		x	belonging to the taxing municipality	x	x		x		x
Non-Profit Organizations										x
Charitable Societies	by bylaw			by bylaw	x	x	x	by bylaw		x
YMCA/YWCA			x	by bylaw						
Boy Scout/ Girl Guide			x		x			x		
Children Aid Societies			x		x					
Red Cross			x							
Literary, Historical Cultural, Art, Societies					x		x			
Agricultural Societies	by bylaw	by bylaw	x				x	x		
Veterans Assoc.		by bylaw	x	by bylaw	by bylaw Navy League			x		
Homes for the Aged	x	x		by bylaw						
Community Halls			owned by co-op assoc.	by bylaw						

APPENDIX II-1 (continued)

PROPERTY EXEMPT FROM TAXATION IN CANADA[1]

(By Function or Owner of Property)

Newfoundland	- by unanimous vote of council, and with the approval of the minister, any property may be made exempt from taxation. - a school authority may exempt any property from school taxation with the approval of the minister.
Nova Scotia	- by bylaw, a municipal council may allow the taxation of all or a part of the property of a non-profit community, charitable, fraternal, educational, recreational, religious, cultural or sporting organization at less than the commercial tax rate, but not less than the residential tax rate.
New Brunswick	- crown corporations are subject to taxation.
Quebec	- all but government and church property may be subject to a charge to compensate the municipality for certain services.
Ontario	- municipalities have power to exempt exhibition buildings, Navy League, and lands of religious institutions used for recreational purposes.
Manitoba	- homes and housing for the aged; agricultural and veterans associations; charitable, educational or religious institutions, community halls, and Y.M.C.A. buildings, are exempt from school taxation. Those same properties may, by bylaw, also be made exempt from municipal taxation.
Saskatchewan	- municipal councils may exempt properties by bylaw.
Alberta	- a non-profit organization may apply to the municipal council for an exemption. If it is refused, an appeal may be made to the Local Authorities Board whose decision is final.
British Columbia	- discretionary exemptions may be made by bylaw for parks and recreation facilities, airports and seaplane bases, charitable organizations, agricultural societies and historical sites.

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[1] Information taken from Frederic H. Finnis, **Property Assessment in Canada**, Canada Tax Foundation, 1979

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APPENDIX II-2
ANALYSIS OF EXEMPT ASSESSMENT IN SASKATCHEWAN
1984

Category of Assessment	Estimated Assessment (Millions)[1]	Assessment as a Percentage of Total Assessment	Assessment as a Percentage of Total Exempt Assessment	$ Revenue (Millions)[2]
Property on Which Grants-in-Lieu are Paid				
Federal Government	$ 89.49	1.3%	6.6%	$ 9.78
Provincial Government[3]	150.18	2.1	11.2	16.52
Other	5.53	0.1	0.4	0.64
TOTAL	$ 245.20	3.5%	18.2%	$ 26.94
Property on Which No Grants-in-Lieu are Paid				
Federal Government	3.08	0.1	0.2	0.31
Provincial Government	160.32	2.3	11.9	17.84
Municipal Government	270.98	3.8	20.1	29.80
Other Local Governments	16.58	0.2	1.2	1.72
School Divisions	199.60	2.8	14.8	21.47
Universities/Colleges	92.60	1.3	6.9	10.70
Hospital	68.99	1.0	5.1	7.66
Churches	59.89	0.9	4.4	6.50
Agricultural Improvements	163.47	2.3	12.1	16.51
Other Statutory	57.71	0.8	4.3	6.46
SUB-TOTAL	$1,093.22	15.5%	81.2%	$118.97
Municipal Bylaw	7.86	0.1	0.6	0.81
TOTAL	$1,101.08	15.6%	81.8%	$119.78
Total Exempt	$1,346.28	19.1%	100.0%	$146.72
Total Taxable	$5,692.43	80.9%		
Total Taxable & Exempt	$7,038.71	100.0%		

FOOTNOTES:

[1] The source of the information is returns prepared by municipalities and compiled by the Commission. Because not all municipalities have reported, it was necessary to extrapolate to obtain totals. Assessments are based on the new (1976) manual.

[2] This is the revenue that would be generated if the average mill rate for various categories of municipality were applied to the estimated exempt assessment for that category of municipality.

[3] The data on revenues from provincial government property on which grants-in-lieu of taxes were paid was obtained from Statistics Canada, rather than the analysis of municipal returns. The assessment figure was extrapolated on the basis of an average mill rate of 110 mills on the new (1976) values.

Totals may not add to 100.00 because of rounding.

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APPENDIX II-3

GRANTS-IN-LIEU OF TAXES BY PROVINCIAL GOVERNMENTS - OVERVIEW[1]

Province	Government Property(1)		Crown Corporations	Other Property
	Municipal Taxes	School Taxes		
Newfoundland	No	No	Generally exempt. A few pay municipal tax only.	
Pr. Edward Is.	Yes	(2)	Yes	
Nova Scotia	Yes	Yes	Separate arrangements in separate statutes.	On residential property of hospitals and post-secondary institutions.
New Brunswick	Yes	(2)	Yes	On public schools, private schools, hospitals, universities.
Quebec	Yes	(3)	Yes	Social affairs and post-secondary education facilities at 80%, and elementary and secondary educational facilities at 40% of general tax rate.
Ontario	Yes	No	Yes	Some special payments for hospitals, post-secondary educational institutions, and penal institutions.
Manitoba	Yes	Yes	Yes	
Saskatchewan	No	No	Yes	
Alberta	Yes	No	Yes	
British Columbia	Yes	No	Yes	

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[1] This material was drawn from Canadian Tax Foundation, **Provincial and Municipal Finances**, 1983.

(1) Among the provinces that do pay grants-in-lieu of taxes, there are variations in the types of property for which grants-in-lieu of taxes are paid.

(2) Education is a provincial responsibility in these provinces.

(3) Education is almost entirely financed by the provincial government.

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APPENDIX II-4

GRANTS-IN-LIEU OF TAXES BY PROVINCIAL GOVERNMENTS

The following information is drawn from a 1986 survey conducted by the Local Government Finance Commission. The survey sought information regarding policies on grants-in-lieu of taxes to local governments for provincial government property, provincial Crown corporations, and other property for which the Province might pay grants-in-lieu of taxes.

BRITISH COLUMBIA

- Provincial Government

Grants-in-lieu of municipal property taxes are paid by the British Columbia Building Corporation, which holds developed provincial property. No grants-in-lieu of school taxes are paid. The Ministry of Lands, Parks and Housing, which holds the remaining, mainly undeveloped, property, does not pay grants-in-lieu of taxes, unless the property is used by a lessee.

- Crown Corporations

Some Crown corporations pay municipal taxes, others pay grants-in-lieu of municipal taxes, and still others pay nothing. B.C. Hydro is a special case, paying grants-in-lieu of taxes to municipalities based upon 1% of gross B.C. Hydro revenues in the municipality for its local generation and transmission facilities, and a utility class mill rate on the assessed value of other local facilities, but it pays nothing on its non-local facilities. B.C. Hydro also pays a grant-in-lieu of school taxes based on the assessed value of all property with certain exclusions.

ALBERTA

- Provincial Government

The Province pays grants-in-lieu of taxes on all real property, except land under conservation, irrigation, reclamation, or reforestation, parks, museums or historic sites, trade schools, colleges, and universities, hospitals and mental institutions.

These grants are paid in full for municipal, school, hospital, local improvements, and business revitalization purposes.

- Crown Corporations

Alberta Liquor Control Board, Alberta Government Telephones, Alberta Mortgage and Housing, and the Treasury Branches also pay full grants-in-lieu of taxes.

SASKATCHEWAN

- Provincial Govermment

The Province does not pay grants-in-lieu of taxes for municipal or school purposes, but does pay grants-in-lieu of local improvement levies. Taxes are collected in rents from the lessee of provincially-owned farmland and the users of community pastures, and transferred to local governments.

- Crown Corporations

Commercial Crown corporations pay grants-in-lieu of taxes equivalent to full municipal, school, hospital, and local improvement levies. Saskatchewan Power Corporation pays grants based on a percentage of gas and electric revenues to certain urban municipalities, and full grants-in-lieu of municipal, school, and hospital taxes on gas wells, houses and selected pipelines.

MANITOBA

- Provincial Government

The Province pays grants-in-lieu of taxes on its property, including wild life management areas, equivalent to full municipal, school and local improvement levies and any other tax charges. Special payments are made to the City of Winnipeg of $100,000 for the Legislative Building, and Government House and its grounds, a full grant-in-lieu for the grounds of Legislature, and $260,000 toward the provision of municipal services.

- Crown Corporations

Manitoba Hydro, Manitoba Telephone System, the Liquor Control Commission, and Manitoba Housing and Renewal pay grants-in-lieu of taxes equivalent to full municipal and school levies.

- Other

The Province also pays grants-in-lieu on behalf of universities and community colleges equivalent to full municipal, school, and any other tax levies.

ONTARIO

- Provincial Government

The Province pays grants-in-lieu of taxes on all of its property, including provincial parks, and excluding highways, unpatented lands and lands leased to private tenants, equivalent to full municipal levies, special charges, business taxes, and local improvement levies.However, no grants-in-lieu of taxes are paid in respect of school taxes. Private tenants of government property are responsible for the payment of all municipal and school taxes and local improvement levies. Some special purpose bodies, which do not levy taxes but which requisition funds from municipalities, may indirectly receive grant-in-lieu of taxes through the municipalities.

- Crown Corporations

With minor exceptions, all Crown corporations and agencies pay full grants-in-lieu of municipal taxes and special charges. The Ontario Housing Corporation also pays grants-in-lieu of taxes to school boards. Ontario Hydro pays full grants-in-lieu of municipal and school taxes on its office buildings. However, generating stations are assessed at a specific rate per square foot and there is an overall limit that no municipality may receive over 50% of its tax levies from Hydro. Private tenants are responsible for the payment of all taxes on properties they lease from Crown corporations.

- Other

The Province pays grants to universities, community colleges, hospitals, and correctional institutions based upon $50 per full-time student, hospital bed or inmate. In turn, these sums are paid to municipalities, which levy taxes on these facilities on the same basis. The Province also pays a grant-in-lieu of municipal taxes on behalf of non-profit hospital service corporations, which are exempted from municipal and school taxes.

APPENDIX II-4 (continued)
GRANTS-IN-LIEU OF TAXES BY PROVINCIAL GOVERNMENTS

QUEBEC

- Provincial Government

The Province pays full grants-in-lieu of municipal and school taxes and local improvement levies on all of its property except unserviced land, parks, wildlife reserves and similar properties.

- Crown Corporations

The Crown corporations also pay full grants-in-lieu of taxes.

- Other

The Province also pays grants-in-lieu of municipal and school taxes and local improvement levies equivalent to 80% of the full rate on behalf of social affairs facilities, colleges and universities, and at 50% of the full rate on behalf of elementary and secondary schools. The Province also pays to municipalities the difference between a statutory rate on farms and wood lots and the actual mill rate, excluding local improvement levies.

NOVA SCOTIA

- Provincial Government

The Province pays full grants-in-lieu of municipal taxes on provincially occupied property, excluding the Department of Housing, public hospitals and educational institutions within municipalities, villages or service commissions.

- Crown Corporations

The Nova Scotia Liquor Commission pays a grant-in-lieu of property taxes based upon 1.5% of the total cost of land and buildings in each location, and a grant-in-lieu of business taxes of 4% of the plant, equipment and average stock inventory valued at cost in each location. The Nova Scotia Power Corporation paid a grant-in-lieu of taxes to municipalities of 2.5% of retail electric revenue in the municipality in 1976, compounded by percentage increases specified by the Province in subsequent years.

- Other

The Province pays a grant-in-lieu on behalf of the residential property of a hospital or post-secondary educational institution equivalent to 40% of full taxes for municipalities, local improvement levies and service commissions. In 1985, the Province also paid a grant-in-lieu of taxes on exempt farmland at a rate of $1.41 per acre.

PRINCE EDWARD ISLAND

- Provincial Government

The Province pays the full municipal real property tax based on the assessment of all of its property within municipal boundaries, except for public squares or parks, unless occupied by a tenant.

- Crown Corporations

Provincial Crown corporations also pay the full general municipal property tax on the assessed value of property within municipalities.

NEW BRUNSWICK

- The Province pays full grants-in-lieu of taxes on all of its property, except Crown lands, to municipalities.

- Crown Corporations

Crown corporations pay full grants-in-lieu of both municipal and provincial property taxes.

- Other

The Province also pays grants-in-lieu of taxes on public and private schools, hospitals and libraries.

NEWFOUNDLAND

- Provincial Government

The Province does not pay grants-in-lieu of taxes on its property, except in St. John's where a payment is made for protection and water services, subject to the approval of the Lieutenant-Governor-in-Council.

- Crown Corporations

Generally, Crown corporations do not pay grants-in-lieu of taxes. The Newfoundland and Labrador Housing Corporation pays a full grant-in-lieu of municipal and school taxes on residential units constructed under federal/provincial agreements.

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APPENDIX II-5

ESTIMATED(1) 1982 LOCAL GOVERNMENT REVENUES FROM GRANTS-IN-LIEU OF TAXES

	Newfoundland	Prince Ed. Island(2)	Nova Scotia	New Brunswick(2)	Quebec	Ontario	Manitoba	Sask.	Alberta	British Columbia	All Prov.
Grants-in-Lieu ($ millions)											
Fed. Gov't. and Enterprises	3.1	0.5 (3)	18.4	3.8	46.9	104.4	16.5	4.3	15.9	13.7	227.4
Prov. Gov't. and Enterprises	0.7	(4)	13.7	15.9	237.6	133.4	28.9	17.2	46.2	26.2	519.9
Other	4.8	-	-	-	6.5	23.4	20.5	1.5	24.4	1.7	82.9
TOTAL	8.6	0.5	32.1	19.7	291.0	261.1	65.9	23.0	86.6	41.6	829.2
TOTAL GROSS GENERAL REV. ($ millions)	184.4	93.5	1,036.4	257.3	8,566.6	13,114.4	1,437.6	1,346.8	4,909.0	3,618.5	34,564.5
Grants-in-Lieu as % of Total Gross General Revenue	4.7	0.5	3.1	7.7	3.4	2.0	4.6	1.7	1.8	1.1	2.4
Population (5) ($ thousands)	568.5	122.7	851.7	698.9	6,479.8	8,716.1	1,034.5	979.1	2,318.5	2,719.1	24,631.8
Fed. Gov't. and Enterprises ($/cap.)	5.45	4.07	21.58	5.51	7.23	11.97	15.92	4.43	6.87	5.02	9.23
Prov. Gov't. and Enterprises ($/cap.)	1.26	(4)	16.13	22.69	36.79	15.30	27.95	17.59	19.95	9.65	21.11
TOTAL GRANTS-IN-LIEU ($/cap.)	15.20	4.07	37.70	28.20	44.92	29.96	63.66	23.54	37.36	15.29	33.69

NOTES:

(1) Source, unless otherwise indicated, Statistics Canada, **Local Government Finance (Actual), 1982**, Catalogue No. 68-204.
(2) In P.E.I. and N.B., education is entirely a provincial responsibility.
(3) From Government of Canada, **Federal-Provincial Programs and Activities, 1983-84**. Data is for 1982.
(4) As all provincial property in P.E.I. is deemed to be subject to municipal taxes, grants-in-lieu of taxes cannot be identified as such.
(5) Statistics Canada, **Post-Census Update**, 1982.

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APPENDIX II-6

PRIVATE ACTS PROVIDING EXEMPTION FROM PROPERTY TAXATION

Apostolic Church of Pentecost of Canada Incorporated
An Act to provide for Exemption from Taxation of Certain Property of the...
1946, c. 113

Archiepiscopal Corporation of Regina (Marion Centre)
Exemption from Taxation of Property
1976, c. 69

Bethel Bible Institute of Saskatoon
Exemption of Certain Property from Taxation
1939, c. 99

Boy Scouts of Canada Saskatchewan Provincial Council
An Act to Provide for Exemption from Taxation of Property of...
1979, c. 86

Canadian Red Cross, Saskatchewan Division
Exemption from Taxation
1979-80, c 109

Diocese of Saskatchewan
Exemption from Taxation
1946, c. 49; 1953; c. 121

Episcopal Corporation of Saskatoon
Exemption from Taxation
1961, c. 87

Evangelical Covenant Church of Canada
Exemption from Taxation
1961, c. 88

Free Methodist Church in Canada
An Act to Provide for Partial Exemption from Taxation of Certain Lands of The...
1954, c. 99

La Corporation Episopale Catholique Romaine de Prince Albert
Exemption from Taxation
1968, c. 93

Lebret, Scolasticat du Sacre Coeur at Exemption from Taxation of...
1927, c. 75

Le College Catholique Romain de Prince Albert
Exemption from Taxation
1961, c. 89

Les Filles de la Providence
Exemption from Taxation
1963, c. 84

Les Soeurs Adoratrices du Precieux Sang de Gravelbourg
An Act to Exempt from Taxation
1944, c. 101

Les Soeurs de Notre Dame D'Auvergne
Exemption from Taxation
1947, c. 120; 1951, c. 107

Les Soeurs de Notre Dame de la Croix
Exemption from Taxation
1928, c. 87; 1962, c. 73

Luther College of Regina
An Act to Exempt from Taxation
1938, c. 95

Meadow Lake Bible Institute
Exemption from Taxation
1949, c. 127

Mohyla Institute (1958)
Exemption from Taxation
1965, c. 97

Nelson Lake Lutheran Bible Camp
Property Tax Exemption
1981-82, c. 3

Nipawin Bible Institute
An Act to Provide for Partial Exemption from Taxation of Certain Property of...
1963, c. 85

Norwegian Lutheran Church of Canada
An Act to Provide for Exemption from Taxation of Certain Property of The,
1946, c. 114

Notre Dame de Sion Academy
Exemption from Taxation
1946, c. 49

Oblate Fathers of St. Mary's Province
An Act to Provide for Exemption from Taxation of Certain Property of...
1948, c. 117

Parkland Baptist Schools of Prince Albert in The Province of Saskatchewan
An Act to Provide for Exemption from Taxation of Certain Property of the...
1973, c. 126

Prairie Christian Training Centre (United Church of Canada)
Exemption of Certain Property from Taxation
1958, c. 107

Prince Albert
Amending an Act to Grant Tax Exemption in Certain Institutions in the City of...
1948, c. 116 (See 1931, c. 93)

Qu'Appelle
Enabling Village of, to Exempt from Taxation a Certain Grist Mill
1899, c. 30

Salvation Army
Exemption from Taxation
1965, c. 105

Saskatoon Bible College
Exemption of Certain Property from Taxation
1945, c. 119

Sisters of Charity Providence Hospital, Moose Jaw
Exemption of Certain Property from Taxation
1939, c. 100

Society of Our Lady of Sion
Exemption from Taxation, Moose Jaw
1924, c. 56; 1946, c. 111

Society of the Sisters of Sion
Exemption from Taxation, Sasktoon
1924, c. 58

APPENDIX II-6 (continued)
PRIVATE ACTS PROVIDING EXEMPTION FROM PROPERTY TAXATION

Soeurs de la Charite de St. Louis
Exemption from Taxation
1924, c. 57

Ukrainian Catholic Episcopal Corporation of Saskatchewan
Exemption from Taxation of Certain Property in Saskatoon
1956, c. 79

Ukrainian Greek Orthodox Church of Canada
Exemption from Taxation of Certain Property in R.M. of Hoodoo No. 401
1968, c. 98

Ukrainian Orthodox Church Camp Crystal Lake
Exemption from Taxation of Certain Property
1966, c. 110

Wapella Flour Mill
Exemption from Taxation
1895, c. 35

Western Canadian Bible Institute of the Christian & Missionary Alliance
Exemption from Taxation
1964, c. 64

Prince Albert Pulp Company
City of Prince Albert
Act Act to Confirm Certain Bylaws
1966, c. 101

NOTE: There is a total of 39 Acts, some of which are not applicable because the properties no longer exist.

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APPENDIX II-7
MUNICIPAL SURCHARGE, ELECTRICAL AND GAS GRANTS IN 1985
(In $'000)

	Surcharge	Electric Grant	Gas Grant	Total
Cities				
Estevan	$ 342	$ 159	$ 137	$ 639
Lloydminster[1]	51	18	0	69
Melfort	212	98	83	392
Melville	152	67	75	294
Moose Jaw	1,099	520	651	2,270
North Battleford	495	224	242	962
Prince Albert	1,299	603	913	2,815
Regina	5,982	3,306	2,812	12,100
Saskatoon[1]	1,628	740	2,741	5,109
Swift Current[1]	4	2	281	287
Weyburn	345	114	152	610
Yorkton	543	271	280	1,095
TOTAL CITIES	$12,150	$6,122	$ 8,368	$26,640
Towns and Villages	4,362	0	1,812	6,174
TOTALS	$16,512	$6,122	$10,180	$32,814

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[1] These cities are not fully served by S.P.C., e.g. Saskatoon and Swift Current serve major areas with their municipally owned electrical distribution systems, and most of Lloydminster is served from Alberta.

SOURCE: S.P.C.

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APPENDIX II-8
MUNICIPAL SURCHARGES, ELECTRIC AND GAS GRANTS BY YEAR
1973 - 1985
(In $'000)

Year	Municipal Surcharge	Electric Grant	Gas Grant	Total
1973	$ 2,670	$ 944	$ 1,350	$ 4,964
1974	2,970	1,057	1,467	5,494
1975	3,408	1,182	1,998	6,588
1976	4,475	1,559	2,887	8,920
1977	5,481	1,941	3,492	10,915
1978	6,664	2,373	4,306	13,343
1979	7,672	2,730	4,878	15,279
1980	8,402	2,983	5,012	16,398
1981	10,119	3,687	5,178	18,984
1982	11,556	4,186	8,655	24,397
1983	12,494	4,566	8,137	25,197
1984	14,763	5,430	9,468	29,660
1985	16,512	6,122	10,180	32,814
Compound Average Annual Increase	16.4%	16.9%	18.3%	17.0%

SOURCE: S.P.C..

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APPENDIX II-9

ASSESSMENT AND TAXATION OF ELECTRIC AND GAS UTILITIES ACROSS CANADA

There is a wide variety of arrangements for the assessment and taxation of private and public utilities across the country.

GENERAL SURVEY RESULTS

Newfoundland and Labrador Hydro is exempted from municipal taxation, and pays service fees only for services actually provided, such as water supply and garbage removal.

The Nova Scotia Power Corporation pays a grant-in-lieu of taxes to municipalities based on the revenue from sales of electricity within a municipality. The basic rate of 2 1/2% was introduced in 1977 and has been increased annually by the Cabinet. Special provisions are available to minimize the loss of revenue, if a municipal electric utility is acquired by Nova Scotia Power.

Some privately owned utilities, like Union Gas in Ontario and Alberta Power Limited, pay full property taxes and business taxes.

In some cases, utilities make payments based on a combination of property assessments and revenues. For example, B.C. Hydro pays grants based on 1% of gross revenue earned in a tax jurisdiction, and the assessment of eligible land and buildings. Gaz Metropolitan (Montreal) pays property taxes on assessed property, a distribution tax based on 3% of its income from gas operations, and a business tax based on the rental value of its occupied property.

In some provinces, utility payments are made only to municipal governments. However, B.C. Hydro pays grants-in-lieu of school taxes.

Business taxes are paid on some, but not all properties.

Most utilities pay local improvement taxes, or grants-in-lieu of local improvement taxes.

TYPE OF MUNICIPALITY

In some cases, distinctions in payments are made based on the type of municipal jurisdiction in which the utility operates.For example, Canada Western Natural Gas Ltd. (Calgary) pays full taxes on assessed property and pipelines in counties, municipal districts and improvement districts, and pays franchise taxes of 5.25% of gross revenues in towns and villages and 11.11% in cities.

TYPE OF PROPERTY

In other cases, distinctions in assessment or taxation are made based on the type of property, or the type of utility. In New Brunswick, all utilities pay normal property and business taxes on offices and other buildings to municipalities and to the Province. The Province, but not local governments, taxes wires, cables and poles for cable television, electric light and power systems, telegraph and telecommunication systems based on assessments or based on 5% of gross revenues. Oil pipeline and gas distribution companies do not pay the gross revenue tax, but are fully taxable on their equipment at both the local and provincial levels.

PRODUCTION V.S. TRANSMISSION/DISTRIBUTION FACILITIES

Distinctions are often made between production facilities, collection, transmission and distribution systems, versus office and other buildings. In Newfoundland, powerlines, structures, conductors and easements of the privately owned Newfoundland Light and Power Ltd. are not taxed. In New Brunswick, these facilities are assessed and taxed at the provincial, but not the local level. In Quebec, the production and distribution systems of telecommunication, electricity and gas distribution companies are subject to a special tax system based on revenues, not on property assessments. In Ontario, Ontario Hydro is neither assessed nor taxed on its transmission or distribution lines, although it does pay grants-in-lieu for the land it owns on which those lines are located. Ontario Hydro also does not pay for the machinery, equipment, dams, tunnels, etc. of its generating plants. In Alberta, pipelines used in a gathering, transmission and distribution system, and machinery and equipment used to generate, transform, transmit or distribute electric power are assessed and taxed unless owned by a municipality or co-operative association, or unless part of a gas distribution system serving non-urban communities. In B.C., property taxes are paid on virtually the whole system of a utility, but business taxes are not paid on property and equipment used for generation, transmission or transportation.

DISTRIBUTION OF PAYMENTS

Payments made by utilities are not always distributed based on the location of the assessed property or the source of the revenues. In Quebec, the Province distributes the proceeds of a 3% tax on gross electricity sales and a 3% tax on gross gas revenues, less the cost of gas purchases to municipalities through a formula which incorporates population and relative property tax levels. In New Brunswick, tax payments made to the Province are distributed as grants to cities, towns and villages, based on population, operating budgets and other factors. In Ontario, no municipality may receive more than 50% of its tax revenues from Ontario Hydro.

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APPENDIX II-10

RELATIVE IMPORTANCE OF S.P.C. PAYMENTS TO MUNICIPALITIES[1]

	Municipal Surcharge	Gas and Electric Grants	Total S.P.C. Payments	Municipal Tax Levies	Surcharge as % of Tax Levies	Gas and Electric Grants as % of Levies	Total Payment as % of Tax Levies
Cities							
Estevan	$ 304,826	$ 278,535	$ 583,361	$2,069,000	14.7%	13.5%	28.2%
Melfort	195,342	167,687	363,029	1,411,000	13.8	11.9	25.7
Melville	146,705	139,660	286,365	861,000	17.0	16.2	33.3
Moose Jaw	981,556	1,094,688	2,076,244	7,920,000	12.4	13.8	26.2
North Battleford	445,397	435,691	881,088	4,023,000	11.1	10.8	21.9
Prince Albert	1,189,085	1,497,953	2,687,038	8,149,000	14.6	18.4	33.0
Regina	5,794,376	5,414,291	11,208,667	55,489,000	10.4	9.8	20.2
Weyburn	310,518	286,509	597,027	2,149,000	14.4	13.3	27.0
Yorkton	492,716	507,464	1,000,180	3,836,000	12.8	13.2	26.0
SUB-TOTAL	$9,860,521	$9,822,478	$19,682,999	$85,907,000	11.5%	11.4%	22.9%
Saskatoon[2]	$1,439,944	$3,122,920	$ 4,562,864	$38,215,000	3.8%	8.2%	11.9%
Swift Current[2]	3,185	262,506	265,691	3,080,000	0.1	8.5	8.6
Lloydminster[3]	41,838	14,880	56,718	5,030,000	0.8	0.3	1.1
SUB-TOTAL	$ 1,484,967	$ 3,400,306	$ 4,885,273	$ 46,325,000	3.2%	7.3%	10.5%
TOTAL CITIES	$11,345,488	$13,222,784	$24,568,272	$132,232,000	8.6%	10.0%	18.6%
TOWNS & VILLAGES[4]	$ 3,417,076	$ 1,674,751	$ 5,091,827	$ 37,426,000	9.1%	4.5%	13.6%
TOTAL URBAN	$14,762,564	$14,897,535	$29,660,099	$169,658,000	8.7%	8.8%	17.5%

NOTES:

[1] All data is for 1984.

[2] Saskatoon and Swift Current provide electrical service to most of their residents, while S.P.C. serves only a portion of these cities.

[3] Lloydminister is served largely by an Alberta-based private utility company.

[4] The municipal surcharge on electricity is available to all towns and villages, but only 98 gas towns receive the gas grant. Towns and villages are not eligible for the electric grant.

SOURCES: Municipal surcharge, electric and gas grants from S.P.C.. Municipal tax levies from the Department of Urban Affairs.

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APPENDIX II-11
MILL RATE EQUIVALENCY OF S.P.C. PAYMENTS
1984

Municipalities	**Equalized Assessment**	**Municipal Surcharge**	**Mill Rate Equivalency**	**Gas and Electric Grants**	**Mill Rate Equivalency**
	($'000)	($)	(mills)	($)	(mills)
9 Cities Served by S.P.C.	$ 758,046	$ 9,860,521	13.0	$ 9,822,478	13.0
3 Cities Served Largely by Other Utilities	579,040	1,484,967	2.6	3,400,306	5.9
Total Cities	$1,335,085	$11,345,488	8.5	$13,222,784	9.9
Towns and Villages	442,678	3,417,076	7.7	1,674,751	3.8
Total Urban	$1,777,764	$14,762,564	8.3	$14,897,535	8.4

SOURCES: Saskatchewan Assessment Authority.
Saskatchewan Power Corporation.

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APPENDIX II-12
ASSESSMENTS IN RURAL MUNICIPALITIES WITH POTASH MINES
1983

Rural Municipality		**Total Assessment**[1]	**Farm Assessment**	**Mine Assessment**	**% Farm Assessment**	**% Mine Assessment**	**% Other Assessment**
Rocanville	151	$ 8,486,490	$ 1,895,430	$ 6,432,010	22.3%	75.8%	1.9%
Spy Hill	152	7,648,330	1,448,470	6,108,780	18.9	79.9	1.2
Pense	160	11,733,000	4,728,970	5,259,870	40.3	44.8	14.9
Langenburg	181	7,598,300	2,327,310	4,998,830	30.6	65.8	3.6
Usborne	310	10,787,480	1,855,790	8,717,890	17.2	80.8	2.0
Colonsay	342	7,423,840	2,102,070	5,252,320	28.3	70.7	1.0
Blucher	343	12,247,060	2,697,730	7,877,010	22.0	64.3	13.7
Corman Park	344	19,326,570	4,744,800	5,770,850	24.6	29.9	45.5
Vanscoy	345	10,217,130	2,036,835	6,163,280	19.9	60.3	19.8
		$95,468,200	$23,837,405	$56,580,840	25.0%	59.3%	15.7%

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[1] Based on old assessment values.

SOURCE: Saskatchewan Assessment Authority. All data is for 1983, the last year for which the breakdowns were available, except for R.M. 151 for which 1982 has been used.

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APPENDIX II-13

SOURCE AND DISTRIBUTION OF POTASH TAX SHARING MONIES

1984

Municipality	Potash Tax Revenue Raised in Municipality	Amount of Potash Tax Sharing Monies Received	Mill Rate Equivalency[1]
R.M.s With Mines			
#151 Rocanville	$ 437,831	$ 187,375	25.5 mills
#152 Spy Hill	445,633	347,953	49.2
#160 Pense	247,901	119,401	10.1
#181 Langenburg	381,457	241,959	33.6
#310 Usborne	662,594	193,629	18.0
#342 Colonsay	401,164	160,907	22.8
#343 Blucher	644,590	286,634	22.2
#344 Corman Park	444,661	480,620	24.2
#345 Vanscoy	450,018	288,943	28.9
Sub-Total for 9 R.M.s	$4,115,849	$2,307,421	24.5 mills
R.M.s Without Mines			
#121 Moosomin	-	37,713	13.3
#122 Martin	-	12,505	5.6
#129 Bratt's Lake	-	1,621	0.4
#130 Redburn	-	21,861	4.1
#131 Baildon	-	8,420	3.2
#153 Willowdale	-	25,605	14.3
#159 Sherwood	-	8,211	0.4
#161 Moose Jaw	-	43,200	6.8
#183 Fertile Belt	-	198,688	53.7
#189 Lumsden	-	5,858	1.7
#190 Dufferin	-	11,454	3.2
#191 Marquis	-	2,667	0.7
#211 Churchbridge	-	54,386	16.1
#213 Saltcoats	-	29,972	10.2
#279 Mount Hope	-	450	0.1
#280 Wreford	-	13,209	7.5
#281 Wood Creek	-	2,252	1.0
#283 Rosedale	-	751	0.3
#309 Prairie Rose	-	39,927	19.7
#312 Morse	-	112,725	42.9
#313 Lost River	-	104,770	74.5
#314 Dundurn	-	55,987	35.9
#315 Montrose	-	59,740	32.0
#316 Harris	-	14,410	6.3
#339 Leroy	-	28,219	8.9
#340 Wolverine	-	137,041	67.3
#341 Viscount	-	163,159	66.8
#346 Perdue	-	43,229	18.2
#371 Bayne	-	14,710	5.8
#372 Grant	-	24,016	12.1
#373 Aberdeen	-	101,618	42.6
#376 Eagle Creek	-	11,107	4.2
Sub-Total for 32 R.M.s	-	$1,389,480	12.8 mills
Total for Rural Municipalities	$4,115,849	$3,696,901	18.2
46 Towns and Villages	-	410,572	9.5
TOTAL[2]	$4,115,849	$4,107,473	16.7 mills

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[1] Potash tax sharing monies received divided by equalized assessment times 1,000. Total 1984 equalized assessment for R.M.s with mines was $94.1 million, for other R.M.s $108.5 million, and $43.2 million for towns and villages.

[2] Difference between total taxes levied and receipts is due to the amount allocated for general administration purposes.

SOURCE: 1984 Financial Statements of the Municipal Potash Tax Sharing Administration Board.

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APPENDIX II-14

COMPARISON OF ACTUAL AND RECOGNIZED EXPENDITURES

Rural Municipality		Amount Received Under Potash Tax Sharing 1984 (1)	Recognized Expenditure In Rural Equalization Formula 1985 (2)	Actual Average Expenditure 1982 - 1984 (3)	% by Which Actual Expenditure Differs From Recognized (4)	1985 Equalized Mill Rate (5)
Rural Municipalities with Mines						
Rocanville	#151	$ 187,375	$ 407,523	$ 549,748	35%	96.7 mills
Spy Hill	#152	347,953	346,581	736,782	113	88.9
Pense	#160	119,401	435,197	575,440	32	42.0
Langenburg	#181	241,959	482,072	657,026	36	94.4
Usborne	#310	193,629	401,474	510,357	27	75.0
Colonsay	#342	160,907	312,617	352,391	13	84.8
Blucher	#343	286,634	504,288	760,708	51	113.3
Corman Park	#344	480,620	1,656,260	2,627,766	59	100.5
Vanscoy	#345	288,943	563,626	675,121	20	65.0
TOTAL		$2,307,421	$5,109,638	$7,445,339	46%	N/A
AVERAGE		$ 256,380	$ 567,738	$ 827,260	46%	84.5 mills
Other Rural Municipalities Receiving $100,000 or More Under Tax Sharing						
Fertile Belt	#183	$ 198,688	$ 604,535	$ 724,553	20%	94.7 mills
Morris	#312	112,725	423,330	449,159	6	79.2
Lost River	#313	104,770	343,041	317,775	(7)	101.1
Wolverine	#340	137,041	406,607	398,142	(3)	80.0
Viscount	#341	163,159	439,955	496,386	13	100.0
Aberdeen	#373	101,107	451,120	407,127	(10)	84.0
TOTAL		$ 817,488	$2,668,240	$2,793,142	5%	N/A
AVERAGE		$ 136,248	$ 444,707	$ 465,524	5%	89.8 mills

NOTE: Column (2) shows the total expenditure recognized in the rural municipal equalization formula prior to deducting provincial shared cost grants. It is a gross expenditure to make it comparable with actual gross expenditures in column (3).

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APPENDIX II-15
PROFILE OF BUSINESS TAXES

	Town of 560	Town of 1,200
Number of Businesses	35	62
Total Business Tax	$24,953	$ 45,486
Tax on Land and Improvements	$59,998	$112,556
Total Property Tax	$84,951	$158,042
Average Business Tax	$713	$734
Average Tax on Land and Improvements	$1,714	$1,815
Average Total Property Tax	$2,427	$2,549
Amount of Business Tax for Each $100 of Tax on Land and Improvements	$41.60	$40.40
Range: Amount of Business Taxes for Each $100 Taxes on Land and Improvements	$8.40 to $114.00	$7.40 to $115.80
Business Tax as a Percentage of Total Property Tax	29.4%	28.8%
Percentage of Businesses for which Business Tax is $50.00 or More for Each $100 of Tax on Land and Improvement	48.5%	48.4%

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APPENDIX II-16
RELATIVE MAGNITUDE OF BUSINESS TAXES

Amount of Business Tax for Each $100 of Tax on Land and Improvements	Town of 560		Town of 1,200	
	Number of Businesses	% of Businesses	Number of Businesses	% of Businesses
Between $00.00 and $19.90	6	18.2	10	16.1
$20.00 and $29.90	4	12.1	12	19.4
$30.00 and $39.90	3	9.1	4	6.5
$40.00 and $49.90	4	12.1	6	9.7
$50.00 and $59.90	7	21.2	10	16.1
$60.00 and $69.90	3	9.1	6	9.7
$70.00 and $79.90	2	6.1	6	9.7
$80.00 and over	4	12.1	8	12.9

NOTE: In the town of 560, three businesses were in one location, and it was not possible to match the business tax with the appropriate amount of tax on land and improvements. The data were lumped together for these three businesses for the purpose of assembling this table. This is the reason why there are 33 businesses accounted for in this appendix, rather than the 35 referred to in Appendix II-15.

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APPENDIX II-17

BUSINESS TAX AS A PERCENT OF TOTAL TAXES FOR SELECTED BUSINESSES IN REGINA

1984

Sample of Businesses	Business Tax	Real Property Tax	Total Tax	Business Tax as a % of Total	Business Tax as % of Tax on Real Property
Grocery Store	$ 37,860	$ 55,128	$ 92,987	40.7%	68.7%
Downtown Hotel	16,342	276,138	292,480	5.6	5.9
Auto/Consumer Product Store	53,457	75,309	128,766	41.5	71.0
Car Dealership	18,649	70,277	88,926	21.0	26.5
Drug Store	9,085	20,303	29,388	30.9	44.7
Confectionery	824	1,351	2,175	37.9	61.0
Bank (Neighbourhood)	5,177	4,354	9,531	54.3	118.9
Motel	14,394	153,813	168,207	8.6	9.4
Bank (Downtown)	106,007	276,305	382,312	27.7	38.4
Shopping Mall	275,871	362,645	638,516	43.2	76.1
Auto Body Shop	3,573	6,983	10,556	33.8	51.2
Sample Total	$541,239	$1,302,606	$1,843,844	29.4%	41.6%

Total Business Assessment for All Businesses	$103,794,879
Total Assessment on Land and Improvements for All Businesses	328,044,610
Business Assessment as a Percentage of Assessment on Land and Improvements for All Businesses	31.6%

SOURCE: City of Regina Assessment Department

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APPENDIX II-18

RELATIVE IMPORTANCE OF BUSINESS ASSESSMENT
1975 VERSUS 1986

Municipality	**Business Assessment**		**Total Assessment**		**Business Assessment as a % of Total Assessment**	
	1975	**1986**	**1975**	**1986**	**1975**	**1986**
	($'000)		($'000)			
Regina[1]	$ 25,181	$105,206	$ 278,761	$1,028,779	9.0%	10.2%
Saskatoon[1]	23,507	53,034	251,160	906,906	9.4	5.8
Other Cities	24,358	78,256	252,214	729,951	9.7	10.7
TOTAL CITIES	$ 73,978	$236,497	$ 782,135	$2,665,635	9.5%	8.6%
Towns and Villages	40,003	69,552	352,317	961,610	11.4	7.2
TOTAL URBAN	$113,981	$306,048	$1,134,452	$3,627,245	10.0%	8.4%
Rural Municipalities[2]	7,885	38,223	928,760	2,225,412	0.8	1.7
TOTAL	$121,866	$344,272	$2,063,211	$5,852,657	5.9%	5.9%

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[1] Total 1975 assessment equalized to 1947 level to reflect the different base year values in Regina and Saskatoon.

[2] Includes Local Improvement Districts in 1975.

NOTES:

(1) 1975 was the last year before the start of the reassessment program and 1986 represents the first year after the completion of the reassessment program. Therefore, a comparison of the assessments in these two years will show the shifts due to the reassessment program as well as the growth of the assessment base.

(2) The percentages of assessment for the City of Saskatoon are somewhat misleading. In all municipalities other than Saskatoon, the same mill rate that applies to the assessment of land and buildings must also apply to the assessment of business. Thus, if business assessment accounts for 10% of the assessment, it will also account for 10% of the levy. In Saskatoon, however, a different rate applies to the business assessment. For 1986, business assessment accounted for 5.85% of the assessment in Saskatoon, but it also accounted for 6.56% of the levy. In 1975, business assessment accounted for 9.36% of total assessment, but 8.41% of the total levy.

SOURCE: Department of Municipal Affairs, 1975-76 annual report.
Saskatchewan Assessment Authority.

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APPENDIX II-19

URBAN/RURAL SHIFT IN TAX LOAD ARISING FROM ELIMINATION OF BUSINESS ASSESSMENT FOR SCHOOL PURPOSES

For ease and simplicity of calculations assume:

- 1985 equalized assessments will be used for the sake of consistency with other calculations in the report.
- Assume that business assessment is the same percentage of rural and urban assessment respectively for the 1985 equalized assessment as for the 1986 equalized assessment.
- Assume that each school division levied 95.5 mills before the elimination of the school business assessment (this is the 1985 computational mill rate used in the foundation grant calculation).

Amount of business assessment:

Rural	$1,055,452,000 x 1.72%[1]	=	$ 18,154,000
Urban	1,862,849,000 x 8.44%[1]	=	157,224,000
TOTAL			$175,378,000

Amount generated from the school business tax:

Rural	95.5 mills x $ 18,154,000	=	$ 1,733,707
Urban	95.5 mills x $157,224,000	=	15,014,892
TOTAL			$16,748,599

New assessment levels -	Rural	Urban	Total
Assessment before eliminating business assessment	$1,055,452,000	$1,862,849,000	$2,918,301,000
	18,154,000	157,224,000	175,378,000
New assessment level	$1,037,298,000	$1,705,625,000	$2,742,923,000

Increase in mill rate required to compensate for loss in business assessment:

$$\frac{\$\ 16,748,599}{\$2,742,923,000} \times 1,000 = 6.106 \text{ mills}$$

Additional revenue derived from the 6.106 mills:

Rural: 6.106 mills x $1,037,298,000 = $ 6,333,742
Urban: 6.106 mills x 1,705,625,000 = 10,414,546

Net changes in levies:

	Rural	Urban
Decrease from eliminating business tax	-$1,733,707	-$15,014,892
Increase from higher levy	+ 6,333,742	+ 10,414,546
Net Change	+$4,600,035	-$ 4,600,036

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[1] From Appendix II-18.

NOTE: Because the average school mill rate is higher than 95.5 mills, the shift would be somewhat larger than the $4.6 million.

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APPENDIX II-20

MILL RATES IN SASKATOON AND REGINA

1984

	Regina	Saskatoon 1/3 new and 2/3 old Calculated	Saskatoon Full New Assessment Base	Percentage by Which Regina's Mill Rate Exceeds Saskatoon's
Municipal	55.99 mills	53.76 mills	36.56 mills	+53.15%
School	55.35	77.18	52.49	+ 5.45%
Library	5.57	5.86	3.99	+39.60%
TOTAL	116.91 mills	136.80 mills	93.04 mills	+25.66%

Comparable Assessment Basis

NOTE: In 1984, Regina fully implemented the "new" assessments, whereas Saskatoon began the first of a three year phase-in of the new assessments. To be comparable to Regina's mill rates, the 1984 mill rates for Saskatoon must be converted to what they would have been if the new assessments had been fully implemented.

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APPENDIX II-21

INTER-PROVINCIAL COMPARISON OF BUSINESS TAXES

Province	1985 Business Tax	Business Tax Per Capita
Newfoundland	$ 17,606,000	$30.32
Pr. Edward Island[1]	-	-
Nova Scotia	30,768,000	34.97
New Brunswick[1]	-	-
Quebec	375,609,000	57.06
Ontario	855,950,000	94.43
Manitoba	33,241,000	31.05
Saskatchewan[2]	27,777,000	27.29
Alberta	131,173,000	55.63
British Columbia[3]	3,909,000	1.36
TOTAL	$1,476,033,000	
Average for Provinces which Impose Business Tax		$60.40[4]

FOOTNOTES:

[1] The business tax is not levied in these provinces.

[2] Using three different methodologies for arriving at business taxes in Saskatchewan for 1985, the Commission arrived at figures of $39.1 million, $39.1 million, and $38.2 million. These are obviously substantially higher than the Statistics Canada estimate. The Commission was unable to reconcile the difference between its estimate and that of Statistics Canada, nor was the Commission able to determine whether the levels of business tax in other provinces are underestimated by the same proportion that the data for Saskatchewan are underestimated.

The Commission notes that if Saskatchewan's 1985 business taxes are approximately $39 million, the per capita amount would be $38.32. This would be somewhat higher than the Manitoba per capita amount of $31.05, but considerably lower than the Alberta amount of $55.63 or the Canadian average of approximately $60.

[3] B.C. began phasing out its business tax in 1983.

[4] Excludes the population of the two provinces which do not levy a business tax.

NOTE: The fact that agriculture is a larger percentage of the provincial economy in Saskatchewan than it is in either Alberta or Manitoba, and the fact that most agricultural operations are not subject to the business tax should be kept in mind. The predominant exemption of agriculture from the business tax can serve to "pull down" the average in Saskatchewan more so than in most other provinces, and underestimate the load on those who pay business taxes. The magnitude of the business sectors relative to their total provincial economy is also a factor to consider in making comparisons.

SOURCE: Statistics Canada

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APPENDIX II-22

RELATIONSHIP OF SALES VALUES TO ASSESSED AND APPRAISED VALUES FOR CULTIVATED LAND FOR SELECTED SOILS

Colour/Texture	Soil Association	Sample Size[1]		Average Sales Price 1981-82	Average Assessment	Ratio of Sales Values to Assessment[2]	Coefficient of Correlation[3]	Ratio of Sales Values to Appraised Values[4]
				($/Acre)	($/Acre)			
BROWN								
/Clay	SC Sceptre	73		$565.89	$34.38	16.46	.208	9.88
	WW Willows	37		500.22	32.79	15.26	.228	9.16
	Sub-Total		110					
	Weighted Average			543.80	$33.85	16.06		9.64
/Clay/Loam	FX Fox Valley	120		416.05	24.23	17.17	.365	10.30
	Sub-Total		120					
/Loam	AD Ardill	300		390.38	20.38	19.19	.474	11.51
	HR Haverhill	133		311.34	18.45	16.87	.382	10.12
	Sub-Total		433					
	Weighted Average			$366.10	$19.79	18.50		11.10
/Sand	BY Birsay	31		315.77	16.24	19.44	.543	11.66
	CH Chaplin	20		283.24	12.36	22.92	.521	13.75
	HT Hatton	11		251.38	11.41	22.03	.374	13.22
	Sub-Total		62					
	Weighted Average			$293.85	$14.13	20.80		12.48
TOTAL			725					
WEIGHTED AVERAGES				$395.15	$22.17	17.82		10.69
DARK BROWN								
/Clay	R Regina	125		651.67	45.76	14.24	.201	8.54
	SU Sutherland	32		692.69	41.70	16.61	.164	9.97
	Sub-Total		157					
	Weighted Average			$660.03	$44.93	14.69		8.81
/Clay/Loam	E Elstow	172		438.12	31.67	13.83	.276	8.30
	Sub-Total		172					
/Loam	AM Amulet	52		371.47	24.55	15.13	.525	9.08
	W Weyburn	258		321.48	26.75	12.02	-.031	7.21
	Sub-Total		310					
	Weighted Average			$329.87	$26.38	12.50		7.50
/Sand	A Asquith	50		290.39	19.96	14.55	.068	8.73
	BG Biggar	27		227.73	23.38	9.74	-.188	5.84
	BR Bradwell	33		358.16	28.97	12.36	.069	7.42
	Sub-Total		110					
	Weighted Average			$295.34	$23.50	12.57		7.54
TOTAL			749					

APPENDIX II-22 (continued)

RELATIONSHIP OF SALES VALUES TO ASSESSED AND APPRAISED VALUES FOR CULTIVATED LAND FOR SELECTED SOILS

Colour/Texture	Soil Association	Sample Size[1]		Average Sales Price 1981-82	Average Assessment	Ratio of Sales Values to Assessment[2]	Coefficient of Correlation[3]	Ratio of Sales Values to Appraised Values[4]
				($/Acre)	($/Acre)			
WEIGHTED AVERAGES				$418.86	$31.06	13.49		8.09
BLACK								
/Clay	BA Balcarres	26		$420.11	$40.85	10.28	.317	6.17
	CA Canora	154		390.65	45.12	8.66	.285	5.20
	I Indian Head	22		494.87	40.92	12.09	.437	7.25
	M Melfort	95		666.90	45.96	14.51	.165	8.71
	Sub-Total		297					
	Weighted Average			$489.31	$44.70	10.95		6.57
/Clay/Loam	B Blaine Lake	176		450.88	37.16	12.13	.444	7.28
	Sub-Total		176					
/Loam	N Naicam	64		473.45	52.59	9.00	.175	5.40
	O Oxbow	1,020		338.36	32.05	10.56	.314	6.34
	Y Yorkton	232		378.41	46.69	8.10	.250	4.86
	Sub-Total		1,316					
	Weighted Average			$351.99	35.63	9.88		5.93
/Sand	HM Hamlin	34		494.37	34.03	14.53	.258	8.72
	ME Meota	108		320.43	24.10	13.30	.354	7.98
	WS Whitesand	126		299.96	26.27	11.42	.455	6.85
	Sub-Total		268					
	Weighted			$332.87	$26.38	12.62		7.57
TOTAL			2,057					
WEIGHTED AVERAGES				$377.79	$35.87	10.53		6.32
GRAND TOTAL			3,531					
WEIGHTED AVERAGES				$390.07	$32.04	12.16		7.30

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[1] Number of quarter sections. Sales of quarter sections at less than $125/acre or more than $1,100/acre were excluded from this analysis, as were quarter sections with less than 100 cultivated acres.

[2] The assessed value of land is 60% of the appraised value, which was based on sales for the period 1961-71.

[3] A value of 1.0 means that the relation between sales price and assessed value is directly proportional. A value of zero means the two are completely unrelated. A value of -1.0 means the two are inversely proportional.

[4] The ratio of sales values to appraised values is calculated by multiplying the ratio of sales values to assessment by 0.6.

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APPENDIX II-23

RELATIONSHIP OF SALES VALUES TO APPRAISED VALUES FOR URBAN RESIDENTIAL PROPERTY[1]

Population Groupings	Sample Size	Average Sale[2] Price (1981-82)	Average Appraised[3] Value (1965)	Ratio of Sale to Appraised Value	Coefficient of Correlation[4]
0- 450	39	$23,936	$ 9,555	2.51	.907
451- 550	49	32,831	11,195	2.93	.885
551- 900	68	31,993	11,168	2.86	.907
901- 1,100	34	27,342	10,544	2.59	.915
1,101- 2,000	26	45,013	14,676	3.07	.845
2,001- 3,100	28	51,989	16,465	3.16	.901
3,101- 4,400	88	47,494	13,934	3.41	.926
4,401- 4,750	83	46,950	13,478	3.48	.949
4,751- 5,050	43	49,384	16,263	3.05	.782
5,051-14,750	337	56,614	16,213	3.48	.877
14,751+	96	60,041	17,200	3.49	.836

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[1] Residential property includes residences of one to three dwelling units.

[2] Sale prices were recorded from the "opinion of value" listed by Revenue Canada from information obtained from Land Titles.

[3] Appraised value means land assessment plus two times building assessment because that figure is 50% of depreciated replacement cost.

[4] A value of 1.0 means the relation or "fit" between sales price and appraised value is directly proportional. A value of 0 would mean the two were completely unrelated. A value of -1.0 would mean the two were inversely proportional.

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APPENDIX III-1

1982-83 ESCALATOR INDEX

Tax Base	Year	Amount of the Tax Base	Percent Change From Previous Year	Contribution to the Escalator Index
Personal Income Tax Base (defined as federal basic Tax)	1981 (Dec. '81 est.)	$ 917,492,000	23.8047%	
	1980 (Dec. '80 est.)	741,080,000	5.7651	
	1979 (final)	700,684,768	15.6035	
	1978 (final)	606,110,387	—	
			45.1733 ÷ 12 =	3.7644%
Corporate Income Tax Base (defined as corporate taxable income)	1981 (Dec. '81 est.)	$ 889,393,000	-13.1108%	
	1980 (Dec. '80 est.)	1,023,594,000	25.5833	
	1979 (final)	815,071,435	4.2160	
	1978 (final)	782,098,171	—	
			16.6885 ÷ 12 =	1.3907%
Education and Health Tax Base (defined as total value of retail sales)	1980-81	$3,550,053,000	9.1682%	
	1979-80	3,251,911,000	9.6709	
	1978-79	2,965,155,000	13.8416	
	1977-78	2,604,633,000	—	
			32.6807 ÷ 12 =	2.7234%
Fuel Tax Base (defined as total volume of fuel sold)	1980-81	3,683,977,984 litres	- 0.6334%	
	1979-80	3,707,461,782 litres 815,549,075 gallons	3.6577	
	1978-79	786,770,972 gallons	2.4170	
	1977-78	768,203,439 gallons	—	
			5.4413 ÷ 12 =	0.4534%
TOTAL				8.3319%

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APPENDIX III-2
ALTERNATIVE ESCLATOR INDICES

Year	Current Escalator 4 Tax Bases (With 3 Year Average)[1]	OPTION 1 Total Prov. Revenue (Annual % Change)[2]	OPTION 1 Total Prov. Revenue (With 3 Year Average)[3]	OPTION 2 Total Prov. Expenditure (Annual % Change)[4]	OPTION 2 Total Prov. Expenditure (3 Year Average)[5]	OPTION 3 50% Revenue + 50% Expend. (3 Year Average)	OPTION 4 1 E. & H. 4 1/2 P.I.T. 1 C.I.T.	OPTION 5 3 Tax Bases (With 3 Year Average)[6]
1980-81	7.76%	14.23%	14.23%	10.44%	10.44%	12.34%	16.60%	9.54%
1981-82	10.20	20.49	16.35	14.33	12.61	14.48	14.41	12.59
1982-83	8.33	- 1.44	10.38	20.24	15.14	12.76	12.63	10.50
1983-84	5.59	3.82	5.36	6.86	12.96	9.16	14.41	8.50
1984-85	6.12	7.24	4.21	4.92	9.20	6.71	- 0.41	8.43
1985-86	2.64	5.44	5.73	5.73	5.91	5.82	3.36	4.14
1986-87	3.68	5.77	7.11	8.11	6.94	7.03	4.62	5.31

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[1] For 1984-85 to 1986-87, a different definition of the fuel tax base has been used (est. total sales of refined petroleum products).

[2] Includes budgetary estimates of Heritage and Consolidated Fund revenues.

[3] Includes actual and budgetary estimates of Heritage and Consolidated Fund expenditures, excluding non-budgetary expenditures.

[4] Includes budgetary estimates of Heritage and Consolidated Fund expenditures, excluding non-budgetary expenditures.

[5] Includes actual and budgetary estimates of Heritage and Consolidated Fund expenditures, excluding non-budgetary expenditures.

[6] Personal Income Tax base, Corporate Income Tax base, and the Education and Health Tax base.

NOTE: All indices with three year averaging provisions were phased in the same way as the current escalator index for comparative purposes.

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APPENDIX III-3

UNCONDITIONAL/CONDITIONAL ALLOCATION OF GRANTS AND REVENUE SHARING PAYMENTS TO RURAL MUNICIPALITIES

Year	Unconditional		Conditional		Total
	Amount	% of Total	Amount	% of Total	
1971	$ 2,955,027	20.7%	$11,310,946	79.3%	$14,265,973
1972	2,956,977	20.4	11,550,208	79.6	14,507,185
1973	3,198,033	23.0	10,711,314	77.0	13,909,347
1974	3,617,565	18.1	16,413,354	81.9	20,030,919
1975	5,299,122	21.4	19,409,235	78.6	24,708,357
1976	5,511,258	21.6	20,017,561	78.4	25,528,819
1977	5,939,654	27.4	15,765,097	72.6	21,704,751
1978	10,408,026	40.8	15,109,956	59.2	25,517,982
1979	12,738,326	39.5	19,500,932	60.5	32,239,258
1980	12,467,652	36.2	22,012,705	63.8	34,480,357
1981	13,601,666	35.0	25,212,248	65.0	38,813,914
1982	15,001,360	35.5	27,194,209	64.4	42,195,569
1983	15,985,296	37.9	26,168,562	62.1	42,153,858
1984	16,756,502	38.6	26,597,779	61.4	43,354,281

SOURCE: Summary of financial statement of rural municipalities prepared by the Department of Rural Development.

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APPENDIX III-4

SAMPLE CALCULATION OF 1985 RURAL MUNICIPAL EQUALIZATION GRANT

OVERVIEW

Total Annual Expenditure Requirement (Local Share)	
Administration	$ 44,300
Road Construction	87,956
Road Maintenance	93,592
Bridge Construction and Maintenance	7,200
TOTAL	$233,048
Less Grants-in-Lieu of Taxes	1,619
TOTAL ANNUAL SERVICE COST	$231,429
Less Amount Raised by 75 Mills 75/1,000 x $2,021,980 Assessment	$151,648
Theoretical Equalization Entitlement	$ 79,781
Actual Equalization Grant: $79,027 x 43.7%	$ 34,864

BACKGROUND

The municipality has the following amounts of roadways designated:

Primary Grid	10 k.m.
Grid	54 k.m.
Main Farm Access	72 k.m.
Local Access	142 k.m.
Land Access	92 k.m.

The municipality has an assessment of $2,021,980 and receives grants-in-lieu of taxes of $1,619.

The average cost of constructing main farm access roads in the municipality in the previous 3 years was $11,500 per kilometer.

ADMINISTRATION

A three year average of actual administration expenditures in the municipality amounted to $44,300.

APPENDIX III-4 (continued)

SAMPLE CALCULATION OF 1985 RURAL MUNICIPAL EQUALIZATION GRANT

ROAD CONSTRUCTION

- **Cost Per Kilometer**

Type of Road	Cost for Main Farm Access Construction	Weighting for Type of Road	Construction Cost Per Kilometer
Primary Grid	$11,500	140%	$16,100
Grid	11,500	110	12,650
Main Farm Access	11,500	100	11,500
Local Access	11,500	55	6,325
Land Access	11,500	25	2,875

- **Total Cost of Construction**

Type of Road	Cost per Kilometer	Kilometers of Road	Total Cost
Primary Grid	$16,100	10	$ 161,000
Grid	12,650	54	683,100
Main Farm Access	11,500	72	828,000
Local Access	6,325	142	898,150
Land Access	2,875	92	264,500
			$2,833,750

- **Provincial Share of Construction[1]**

Primary Grid		
54% x $16,100 per k.m. x 10 k.m. =	$ 86,940	
15% of Cost Above $9,000 per k.m.		
$7,160 per k.m. x 15% x 10 k.m. =	10,740	$ 97,680
Grid		
54% x $12,650 per k.m. x 54 k.m. =	$368,874	
15% of Cost Above $9,000 per k.m.		
$3,650 per k.m. x 15% x 54 k.m. =	29,565	398,439
Main Farm Access		
54% x $11,500 per k.m. x 72 k.m. =	$447,120	
15% of Cost Above $3,000 per k.m.		
$8,500 per k.m. x 15% x 72 k.m. =	91,800	
10% of Cost Above $6,000 per k.m.		
$5,500 per k.m. x 10% x 72 k.m. =	39,600	578,520
Local Access - No Assistance		
Land Access - No Assistance		
TOTAL PROVINCIAL ASSISTANCE		$1,074,639

- **Local Share of Construction Cost**

Total Construction Cost	$2,833,750
Less Government Assistance	1,074,639
Local Share of Construction Costs	$1,759,111
Annual Local Share of Construction Cost $1,759,110 ÷ 20	$ 87,956

APPENDIX III-4 (continued)
SAMPLE CALCULATION OF 1985 RURAL MUNICIPAL EQUALIZATION GRANT

ROAD MAINTENANCE

- **Assigned Cost Per Kilometer**

Road Type	A Surface Maintenance Per Km (1)	B Right of Way Maintenance Per Km	C Snow Removal Per Km (2)	Regravel Cost/Cubic Meter (3)	# Cubic Meters Per Km	D Total Gravel Cost	Total Per Km (A + B +C + D)
Primary Grid	$205	$45	$30	$4.90	$60	$294	$574
Grid	165	45	30	4.90	45	220	460
Main Farm Access	135	45	30	4.90	35	171	381
Local Access	115	25	35	4.90	25	122	297
Land Access	30	0	0	4.90	0	0	30

NOTES:

(1) Municipalities were assigned to one of three different schedules for surface maintenance costs, depending on the amount of rainfall. The higher the amount of rainfall, the greater the amount of surface maintenance required.

(2) Municipalities were assigned to one of three different schedules depending upon the amount of long-term snowfall in the municipality.

(3) The cost per cubic meter is based on a three year average cost of gravel in the individual municipality.

- **Total Assigned Maintenance Cost**

Road Type	Kilometers of Road	Assigned Cost Per Kilometer	Total Cost
Primary Grid	$ 10	$ 574	$ 5,740
Grid	54	460	24,840
Main Farm Access	72	381	27,432
Local Access	142	297	42,174
Land Access	92	30	2,760
TOTAL			$102,946

- **Provincial Share of Maintenance**

Municipalities receive maintenance grants for designated roads with the amount per kilometer varying according to traffic volumes. For 1985, the total maintenance grant used in the grant calculation was $9,354.

- **Local Share of Maintenance Costs**

Total Assigned Maintenance Cost	$102,946
Less Provincial Maintenance Grant	9,354
Local Maintenance Cost	$ 93,592

BRIDGES

Number of Bridge Units in Municipality = 36
(A bridge unit is defined as a span of 6 meters. A 30 meter bridge, for example, would be counted as 5 bridge units.)

Standard Province-Wide Annual Cost for Construction and Maintenance of Bridges = $800 per bridge unit.

Total Annual Assigned Cost For Bridges = 36 x $800 = $28,800

Less Provincial Grant on Bridges
(The percentage of government grant depends upon the number of bridge units in the municipality in relation to the assessment of the municipality.)

The provincial grant for bridges in this municipality is 75%.

Local Annual Share of Bridge Costs = $28,800 x 25% = $7,200

FOOTNOTE:

[1] The percentage of assistance varies from municipality to municipality according to the relative wealth of the municipality.

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APPENDIX III-5

QUALIFYING CHARACTERISTICS OF DESIGNATED ROADS

PRIMARY GRID ROADS

- The roads should carry at least 100 vehicles per day or have the potential of developing this traffic volume.
- Roads should provide interconnecting links between highways and other all-weather roads, but should not parallel in close proximity to already existing highways or other surfaced roads.
- The roads may serve as connecting links between urban centres.
- Stub or dead-end roads are only considered for designation if they carry extremely heavy traffic.

GRID ROADS

- The program of construction assistance for these roads was terminated in 1976 when the system was essentially completed.
- The road characteristics are similar to those of primary grid roads. Most grid roads with a traffic volume of over 100 vehicles per day were transferred to the primary grid network.
- Grid roads normally carry about 60 vehicles per day.

MAIN FARM ACCESS ROADS

- The roads should carry at least 30 vehicles per day.
- The roads should serve approximately one permanent farm resident per mile of designated road.
- The roads should be at least two miles from any other designated all-weather road.
- A minimal number of stub roads are to be designated and, where they are considered, they should be at least four miles in length.

REGIONAL PARK ROADS

- The road must lead to a designated regional park.
- Development at the park should be at the stage where a number of public facilities are available and a substantial volume of traffic is being generated.
- Usually only one route is designated from the nearest provincial highway to the regional park.

RESORT ROADS

- The road should carry a minimum of 50 vehicles per day.
- The majority of the traffic should be associated with the resort development.
- The road must provide access to a substantial resort development. This implies that there should be a number of cottages, and public facilities such as campsites, boat launches, concessions, etc., at the resort.
- Resort roads are normally designated from the nearest highway or grid up to the resort subdivision. Roads and streets within the resort subdivision are not eligible.

INDUSTRIAL ACCESS ROADS

- The road should carry at least 50 vehicles per day.
- The majority of the traffic (50% or more) should be associated with the industry.
- The percentage of heavy trucks using the route in relationship to other types of traffic is considered.

OIL ACCESS ROADS

- The road should carry at least 50 vehicles per day.
- The road should provide access to an area where a number of oil wells or other facilities associated with the oil industry (i.e. storage batteries, enhanced recovery projects, etc.) are located.
- The majority of the traffic should be associated with the oil industry.

INDIAN RESERVE ACCESS ROADS

- The road should serve as one of the main routes to the reserve and carry a minimum of 30 vehicles per day.
- 50% of the traffic using the roadway should be related to the Indian Reserve.
- The road should not be within five miles of a constructed grid, main farm access or highway that provides access to the reserve.
- Roads inside the reserve boundaries are not eligible for assistance under this program.

URBAN CONNECTORS

- The roadway should connect a designated grid or main farm access road through an urban centre to the nearest highway or continuing designated municipal road.

HEAVY HAUL AND HIGH VOLUME ROADS

1) Oil Access Roads

- The road should carry a minimum of 100 vehicles per day and at least 30% of the traffic should be heavy haul traffic associated with the oil industry.
- The road should be a major haul route for oil destined to batteries or cleaning facilities. The truck traffic may include back haul of by-products such as saltwater.
- Roads leading to major enhanced recovery projects and major battery installations will be considered if truck hauling is a significant percentage of the traffic.
- The road should interconnect to provincial highways and other major designated municipal roads.
- The road should be required for a minimum of 10 years.

2) Industrial Roads

- There should be a minimum traffic volume of 100 vehicles per day and heavy haul traffic should constitute at least 30% of the traffic volume.
- Industrial roads must lead directly from the nearest highway to the industry.
- Eligible roads normally serve industries that are resource based such as sodium sulphate plants and processing operations like alfalfa dehydrating plants.
- The industrial project life should be a minimum of 10 years.

3) Gravel Haul Roads

- Only **major** gravel haul roads are eligible. They should carry at least 50 loaded trucks daily on a continuous basis.
- The gravel source should have a minimum supply of at least 10 years.

4) Grain Haul Roads

- The minimum traffic volume on these roads should be at least 150 vehicles per day.
- The road should be in an area where railway abandonment has taken effect and grain haul traffic is now converging onto a main haul route.
- The grain traffic should represent at least 10% of the total traffic volume.
- Custom hauling with semi-trailers should be common on such roads.
- The roads should not parallel existing highways or other major haul routes by less than six miles.
- Roadways should lead to major delivery points that may include high throughput elevator facilities.

5) High Volume Roads

- These roads should have a minimum traffic volume of 250 vehicles per day.
- The road should not parallel a highway by less than six miles.
- The road should interconnect with the highway network and provide intercommunity service.

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APPENDIX III-6

PROVINCIAL ASSISTANCE RATES FOR CONDITIONAL ROAD PROGRAMS

Eligible Roads	Construction	Oil Surfacing	Reconstruction	Maximum Grant
Primary Grid Roads	M.F.A.[1] rate + 10%. Additional 15% on costs in excess of $9,000/k.m.	Municipality's M.F.A. rate + 10%. Additional 15% on costs in excess of $9,000/k.m.	M.F.A. Rate	—
Main Farm Access Roads (M.F.A.)	40% - 60% based on municipal road system costs. Additional 15% on costs in excess of $3,000/km.; extra 10% on costs in excess of $6,000/k.m.	—	Basic M.F.A. rate + additional 15% on costs in excess of $9,000/k.m.	—
Regional Parks Roads	M.F.A. rate + 30%	M.F.A. rate + 30%	M.F.A. rate + 30%. Additional 15% on costs in excess of $9,000/k.m.	90% of costs of construction, oil surfacing or reconstruction
Industrial and Oilfield Access Roads	M.F.A. rate + 20%	—	M.F.A. rate + 20%. Additional 15% on costs in excess of $9,000/k.m.	80% of costs of construction or reconstruction
Resort Roads	M.F.A. rate + 15%	—	M.F.A. rate + 15%. Additional 15% on costs in excess of $9,000/k.m.	90% of costs of construction or reconstruction
Indian Reserve Access Roads	80% of construction costs	—	—	—
Ferry Approach Roads	100% when applicable to designated road program	100% when applicable to designated road program	100% when applicable to designated road program	—
Grid Roads	—	—	M.F.A. rate, additional 15% of costs in excess of $9,000/k.m.	—

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[1] M.F.A. stands for main farm access.

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APPENDIX III-7

ALLOCATION PROCESS FOR CONDITIONAL ROAD CONSTRUCTION/RECONSTRUCTION GRANTS

PURPOSE

A set of policies is in place to allocate the conditional road construction and reconstruction grants among municipalities. These policies are necessary because the potential amount of "demand" for cost sharing grants is generally in excess of the grants available. It is also important to allocate the monies fairly so that the municipalities with large local tax bases do not use a disproportional share simply because they are able to finance their local share of costs more readily than the municipalities with smaller local tax bases.

PROCEDURE

- For each municipality the total cost to complete all unconstructed designated roads (the ones eligible for provincial assistance) is calculated. The provincial government's share of these costs is calculated according to the applicable rate of assistance for each program.
- The Province's share of costs to reconstruct all grid and special roads for each municipality is determined, and divided by 20 to obtain an annual reconstruction cost.
- The construction grants that have been "earned" by the municipality but which have not yet been paid to the municipality are determined for each municipality. (Some municipalities construct or reconstruct roads in excess of the amount on which there are available grants each year.)
- Each of the foregoing are added to obtain a total for each municipality and a total for all municipalities. These amounts are referred to as "grant liabilities".
- The amount of conditional road construction/reconstruction grants available under revenue sharing in the year in question is compared with the amount of "grant liability" for all municipalities as a group. In 1985, grants available amounted to about 8.1% of the total "grant liability".
- Each municipality is allocated a percentage of its total "grant liability" equal to the percentage that is available for the province as a whole. In 1985, this would mean that each municipality would be allocated conditional construction/reconstruction grants of approximately 8.1% of its "grant liability".
- Notwithstanding the amount derived by the foregoing procedures, there is a minimum amount allocated to each municipality. In 1985, that minimum amount was $50,000.

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APPENDIX III-8

PERCENTAGE OF ASSISTANCE FOR BRIDGE CONSTRUCTION

Range of Assessment Per Bridge Unit[1]	Standard Bridge Assistance Rate
$ 40,625 or less	80%
40,626 - 71,875	75
71,876 - 103,125	70
103,126 - 134,375	65
134,376 - 165,625	60
165,626 - 196,875	55
196,876 - 228,125	50
228,126 - 259,375	45
259,376 - 290,625	40
290,626 - 321,875	35
321,876 - 353,125	30
353,126 - 384,375	25
384,376 or greater	20

NOTE:

Bridges greater than 6 m. (20 ft.) and up to 24.4 m. (80 ft.) in length:

- assistance is provided at the Standard Bridge Assistance Rate (S.B.A.R.).
- on designated roads, assistance is provided at the greater of the S.B.A.R. or the standard road assistance rate.

Bridges greater than 24.4 m. (80 ft.) and up to 30.5 m. (100 ft.) in length:

- assistance is provided at the S.B.A.R. plus one-half the difference between the S.B.A.R. and 100%.

Bridges greater than 30.5 m. (100 ft.) in length:

- assistance is provided at 100%.

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[1] A bridge unit is a 6 meter span. A 30 meter bridge, for example, would be counted as 5 bridge units.

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APPENDIX III-9

IMPACT OF PARTIAL AND FULL EQUALIZATION
COMPARISON OF MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES[1]

Rural Municipality Number and Name	1984 Equalized Assessment[2]	Standard Gross Annual Expenditure[3]	Gross Theoretical Mill Rate Requirement[4]	Mill Rate Requirement After Conditional Grants[5]	1985 Actual Equalization Grant in $[6]	Full Equalization Grant[7]	Increase in Equalization in $[8]	Increase in Equalization in Mills[9]	Mill Rate Requirement after Conditional and 1985 Actual Equalization Grants[10]	Mill Rate Requirement after Conditional and Full Equalization Grants[11]
15 Most Wealthy Municipalities[12]										
159 Sherwood	$19,970,970	$433,565	21.0 mills	19.8 mills	$ 0	$ 0	$ 0	$ 0	19.8 mills	19.8 mills
5 Estevan	8,952,590	452,696	49.7	41.7	0	0	0	0	41.7	41.7
161 Moose Jaw	6,310,240	415,764	50.9	43.5	0	0	0	0	43.5	43.5
471 Eldon	9,275,989	546,442	58.8	45.0	0	0	0	0	45.0	45.0
319 Winslow	6,865,195	429,437	62.4	52.1	0	0	0	0	52.1	52.1
128 Lajord	7,051,375	463,678	65.7	52.9	0	0	0	0	52.9	52.9
320 Oakdale	6,104,020	425,979	69.0	57.5	0	0	0	0	57.5	57.5
37 Lomond	5,856,610	423,655	70.1	58.4	0	0	0	0	58.4	58.4
168 Riverside	8,596,560	611,901	71.1	58.0	0	0	0	0	58.0	58.0
4 Coalfields	6,404,720	466,026	71.7	60.4	0	0	0	0	60.4	60.4
472 Wilton	10,962,652	825,081	75.2	57.3	0	0	0	0	57.3	57.3
34 Browning	7,657,010	585,769	76.3	63.9	0	0	0	0	63.9	63.9
162 Caron	4,120,644	326,791	79.0	62.2	0	0	0	0	62.2	62.2
36 Cymri	6,081,300	497,993	80.7	64.0	0	0	0	0	64.0	64.0
290 Kindersley	11,162,415	918,302	81.2	69.3	0	0	0	0	69.3	69.3
AVERAGE	$ 8,358,153	$521,539	65.5 mills	53.7 mills	$ 0	$ 0	$ 0	$ 0	53.7 mills	53.7 mills
15 Least Wealthy Municipalities										
490 Garden River	$ 1,776,537	$450,507	253.4 mills	172.5 mills	$ 75,694	$173,212	$ 97,519	54.9 mills	129.9 mills	75.0 mills
335 Hazel Dell	1,943,250	508,141	256.1	170.7	81,285	186,008	204,722	53.9	128.9	75.0
464 Leask	2,517,740	683,657	267.6	178.0	113,293	259,252	145,959	58.0	133.0	75.0
101 Terrell	1,654,220	458,583	277.1	187.6	81,427	186,331	104,905	63.4	138.4	75.0
463 Duck Lake	1,496,030	426,208	279.6	211.0	88,892	203,415	114,523	76.6	151.6	75.0
561 Loon Lake	1,908,635	542,705	280.4	194.0	99,263	227,147	127,884	67.0	142.0	75.0
469 Turtle River	1,638,410	463,237	282.1	184.5	78,386	179,373	100,987	61.6	136.6	75.0
44 Waverley	1,892,470	553,932	292.7	191.4	96,289	220,340	124,052	65.6	140.6	75.0
377 Glenside	1,479,245	451,926	305.3	196.2	78,373	179,344	100,970	68.3	143.3	75.0
622 Beaver River	1,659,326	538,878	319.7	230.9	113,033	258,656	145,623	87.8	162.8	75.0
467 Round Hill	1,572,420	537,596	334.9	193.1	81,118	185,624	104,506	66.5	141.5	75.0
435 Redberry	. 2,007,710	676,268	336.8	227.5	133,781	306,136	172,354	85.8	160.8	75.0
555 Big River	882,815	318,708	342.0	230.7	60,048	137,410	77,362	87.6	162.6	75.0
466 Meeting Lake	1,545,410	569,040	352.0	215.2	94,710	216,728	122,018	79.0	154.0	75.0
497 Medstead	1,326,265	491,355	368.4	249.1	100,881	230,850	129,968	98.0	173.0	75.0
AVERAGE	$ 1,686,699	$511,383	303.2 mills	202.2 mills	$ 91,765	$209,988	$118,223	71.6 mills	146.6 mills	75.0 mills

APPENDIX III-9 (continued)

IMPACT OF PARTIAL AND FULL EQUALIZATION

COMPARISON OF MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES[1]

Rural Municipality Number and Name	1984 Equalized Assessment[2]	Standard Gross Annual Expenditure[3]	Gross Theoretical Mill Rate Requirement[4]	Mill Rate Requirement After Conditional Grants[5]	1985 Actual Equalization Grant in $[6]	Full Equalization Grant[7]	Increase in Equalization in $[8]	Increase in Equalization in Mills[9]	Mill Rate Requirement after Conditional and 1985 Actual Equalization Grants[10]	Mill Rate Requirement after Conditional and Full Equalization Grants[11]
Average for 50 Most Wealthy	$ 5,875,524	$485,439	74.8 mills	62.4 mills	$ 3,388	$ 7,753	$ 4,365	1.0 mills	61.6 mills	60.5 mills
Average for 50 Least Wealthy	$ 2,281,883	$548,041	245.9 mills	165.8 mills	$ 85,364	$195,340	$109,977	51.1 mills	126.1 mills	75.0 mills
Average for 100 Most Wealthy	$ 4,656,365	$462,179	98.9 mills	76.3 mills	$ 13,745	$ 31,452	$ 17,708	5.0 mills	72.4 mills	67.4 mills
Average for 100 Least Wealthy	$ 2,428,557	$508,842	212.2 mills	202.2 mills	$ 73,734	$168,728	$ 94,994	41.0 mills	116.0 mills	75.0 mills

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FOOTNOTES:

[1] See the notes under this same table for an explanation for the exclusion of certain municipalities from the list of most wealthy municipalities.

[2] Self explanatory.

[3] This is the total standard expenditure requirement for each municipality as determined by the application of objective criteria described in section 2A of this chapter. This is used in the calculation of the 1985 equalization grant.

[4] This is the mill rate which the respective municipalities would require to finance its standard gross annual expenditure if there were no conditional or unconditional revenue sharing payments. Grants-in-lieu of taxes and potash tax sharing payments are taken into account in this calculation. The fact that a municipality's mill rate affects the amount of potash tax sharing to which it is entitled is ignored for the purposes of these tables.

[5] These are the mill rates which the municipalities would require to finance their respective standard gross annual expenditures, taking into account the availability of conditional grants as defined in the calculation of the equalization grant.

[6] This is 43.70% of the theoretical equalization entitlement for each municipality. Because the amount of monies allocated to equalization under revenue sharing was only 43.7% of the amount required to provide the full equalization entitlement, the amount to each municipality was scaled back accordingly.

[7] This is the amount of equalization grant that would be paid in 1985, if the full entitlement were actually made available to the individual municipalities.

[8] This is the dollar difference between the full equalization grant and the amount actually paid in 1985.

[9] This is the increase in equalization expressed in the equivalent of mills on the local tax base (equalized assessment) of the municipality.

[10] This is the mill rate required to finance the standard gross annual expenditures, taking into account conditional grants, 1985 actual equalization, grants-in-lieu of taxes and potash tax sharing payments.

[11] This is the mill rate required to finance the standard gross annual expenditure, taking into account conditional grants, full equalization grants, grants-in-lieu of taxes, and potash tax sharing payments.

The fact that potash sharing payments are affected by the mill rate of the municipality is ignored in the last two columns.

[12] Several municipalities (#152, #343, #160, and #345) which receive large amounts of potash tax sharing payments are excluded from the list of the 15 most wealthy municipalities because of the complications arising from the fact that the amount of revenue they receive from revenue sharing is affected by the mill rate they levy.

R.M. #521 is also excluded from the list because its relatively small designated road network results in an overstatement of its relative wealth.

R.M. #11 is also excluded because of complications arising from the receipt of large amounts of grants-in-lieu of taxes.

NOTE:

The purpose of this appendix is primarily to demonstrate the effects of partial and full equalization. The effects of the basic grant are ignored in this appendix, but are taken into account in the examination of options in section 6 of this chapter.

Local Government Finance Commission
September, 1986

APPENDIX III-10

IMPACT OF PARTIAL AND FULL EQUALIZATION
ALL MUNICIPALITIES (FROM MOST WEALTHY TO LEAST WEALTHY)[1]

RM #	RM Name	1984 Equalized Assessment	Standard Gross Annual Expenditure	Gross Theoretical Mill Rate Requirement	Mill Rate Requirement After Conditional Grant	1985 Actual Equalization Grant	Full Equalization Grant	Increase in Equalization	Increase in Equalization in Mills	Mill Rate Requirement After Conditional & 1985 Actual Equalization Grant	Mill Rate After Conditional & Full 1985 Equalization Grant
152	Spy Hill[2]	$ 1713258	$ 350953	0.0	—	$ 0	$ 0	0	0.0	—	—
159	Sherwood	19970970	433565	21.0	19.8	0	0	0	0.0	19.8	19.8
521	Lakeland[2]	4441153	96142	21.5	20.8	0	0	0	0.0	20.8	20.8
343	Blucher[2]	4474885	497085	46.7	22.9	0	0	0	0.0	22.9	22.9
160	Pense[2]	6474600	437522	49.0	42.9	0	0	0	0.0	42.9	42.9
5	Estevan	8952590	452696	49.7	41.7	0	0	0	0.0	41.7	41.7
161	Moose Jaw	6310240	415764	50.9	43.5	0	0	0	0.0	43.5	43.5
11	Hart Butte[2]	4357420	349356	52.8	42.3	0	0	0	0.0	42.3	42.3
471	Eldon	9275989	546442	58.8	45.0	0	0	0	0.0	45.0	45.0
319	Winslow	6865195	429437	62.4	52.1	0	0	0	0.0	52.1	52.1
128	Lajord	7051375	463678	65.7	52.9	0	0	0	0.0	52.9	52.9
345	Vanscoy[2]	4158020	564826	66.2	45.9	0	0	0	0.0	45.9	45.9
320	Oakdale	6104020	425979	69.0	57.5	0	0	0	0.0	57.5	57.5
37	Lomond	5856610	423655	70.1	58.4	0	0	0	0.0	58.4	58.4
168	Riverside	8596560	611901	71.1	58.0	0	0	0	0.0	58.0	58.0
4	Coalfields	6404720	466026	71.7	60.4	0	0	0	0.0	60.4	60.4
472	Wilton	10962652	825091	75.2	57.3	0	0	0	0.0	57.3	57.3
34	Browning	7657010	585769	76.3	63.9	0	0	0	0.0	63.9	63.9
162	Caron	4120644	326791	79.0	62.2	0	0	0	0.0	62.2	62.2
36	Cymri	6081300	497993	80.7	64.0	0	0	0	0.0	64.0	64.0
290	Kindersley	11162415	918302	81.2	69.3	0	0	0	0.0	69.3	69.3
287	St. Andrews	5451390	444600	81.4	68.7	0	0	0	0.0	68.7	68.7
259	Snipe Lake	9140850	749404	81.9	66.5	0	0	0	0.0	66.5	66.5
342	Colonsay	1852947	312617	81.9	57.6	0	0	0	0.0	57.6	57.6
344	Corman Park	14114790	1652172	82.4	62.8	0	0	0	0.0	62.8	62.8
491	Buckland	5578103	465641	82.6	65.7	0	0	0	0.0	65.7	65.7
137	Swift Current	5538985	518499	83.4	68.6	0	0	0	0.0	68.6	68.6
2	Mount Pleasant	4939030	414320	83.9	66.7	0	0	0	0.0	66.7	66.7
130	Redburn	5319160	470229	84.3	69.1	0	0	0	0.0	69.1	69.1
125	Chester	4430060	376132	84.9	66.2	0	0	0	0.0	66.2	66.2
286	Milden	4555770	398067	87.4	72.9	0	0	0	0.0	72.9	72.9
228	Lacadena	7767990	704519	90.3	75.5	1562	3573	2012	0.3	75.3	75.0
129	Bratt's Lake	4593825	421700	91.4	82.1	14253	32616	18363	4.0	79.0	75.0
32	Reciprocity	4483590	431153	93.8	75.1	274	628	353	0.1	75.1	75.0
318	Mountain View	4178240	392916	93.9	74.7	0	0	0	0.0	74.7	74.7
257	Monet	5216760	510912	94.9	76.6	3739	8555	4817	0.9	75.9	75.0
139	Gull Lake	3720820	363883	96.5	76.3	2049	4688	2639	0.7	75.7	75.0
181	Langenburg	2562291	490745	97.1	64.6	0	0	0	0.0	64.6	64.6
3	Enniskillen	4003540	394906	98.5	76.1	1942	4444	2502	0.6	75.6	75.0
187	North Qu'Appelle	3597100	358158	98.6	74.2	0	0	0	0.0	74.2	74.2
65	Tecumseh	3427600	345721	99.0	80.5	8283	18955	10671	3.1	78.1	75.0
191	Marquis	3980660	397441	99.2	85.4	18161	41558	23397	5.9	80.9	75.0
226	Victory	3474880	346587	99.5	82.4	11237	25714	14477	4.2	79.2	75.0
33	Moose Creek	4223040	420958	99.6	81.0	11036	25254	14218	3.4	78.4	75.0
127	Francis	5363780	541191	100.9	80.3	12493	28589	16096	3.0	78.0	75.0

APPENDIX III-10 (continued)

IMPACT OF PARTIAL AND FULL EQUALIZATION
ALL MUNICIPALITIES (FROM MOST WEALTHY TO LEAST WEALTHY)[1]

RM #	RM Name	1984 Equalized Assessment	Standard Gross Annual Expenditure	Gross Theoretical Mill Rate Requirement	Mill Rate Requirement After Conditional Grant	1985 Actual Equalization Grant	Full Equalization Grant	Increase in Equalization	Increase in Equalization in Mills	Mill Rate Requirement After Conditional & 1985 Actual Equalization Grant	Mill Rate After Conditional & Full 1985 Equalization Grant
67	Weyburn	$4575320	$463851	101.4	85.6	$21174	$48453	$27279	6.0	81.0	75.0
254	Loreburn	4536360	462168	101.6	85.8	21331	48811	27481	6.1	81.1	75.0
121	Moosomin	2836570	331811	102.8	80.0	6223	14240	8017	2.8	77.8	75.0
158	Edenwold	5788363	602006	103.6	83.2	20691	47349	26657	4.6	79.6	75.0
437	North Battleford	3532765	370692	104.1	84.7	14960	34232	19273	5.5	80.5	75.0
230	Clinworth	4419370	464521	105.1	86.4	22036	50425	28389	6.4	81.4	75.0
310	Usborne	2066130	412230	105.7	57.0	0	0	0	0.0	57.0	57.0
285	Fertile Valley	3706673	396106	106.8	83.4	13639	31210	17571	4.7	79.7	75.0
260	Newcombe	3778345	423971	106.8	85.2	16759	38350	21591	5.7	80.7	75.0
314	Dundurn	1558310	257360	107.3	67.0	0	0	0	0.0	67.0	67.0
151	Rocanville	2101208	413323	107.5	64.5	0	0	0	0.0	64.5	64.5
98	Scott	5380220	582970	108.4	79.1	9546	21844	12298	2.3	77.3	75.0
156	Indian Head	3536090	405986	108.5	82.7	11868	27157	15289	4.3	79.3	75.0
183	Fertile Belt	3699990	606385	110.0	74.3	0	0	0	0.0	74.3	74.3
322	Antelope Park	1653530	194093	111.9	94.2	13888	31781	17893	10.8	85.8	75.0
352	Heart's Hill	3363350	396484	112.1	84.6	14051	32154	18102	5.4	80.4	75.0
186	Abernethy	3694491	415763	112.2	95.1	32484	74333	41850	11.3	86.3	75.0
502	Britannia	6503526	733836	112.8	80.9	16825	38501	21676	3.3	78.3	75.0
341	Viscount	2442990	439955	113.3	74.3	0	0	0	0.0	74.3	74.3
461	Prince Albert	5032332	695771	113.3	82.6	16713	38246	21532	4.3	79.3	75.0
382	Eye Hill	3572100	417048	113.7	86.1	17312	39615	22303	6.2	81.2	75.0
229	Miry Creek	4908790	560186	114.1	85.3	22074	50511	28438	5.8	80.8	75.0
468	Meota	3672250	421956	114.8	85.5	16866	38595	21729	5.9	80.9	75.0
123	Silverwood	4095455	472748	115.3	81.5	11669	26702	15033	3.7	78.7	75.0
321	Prairiedale	2339090	271082	115.4	89.6	14893	34081	19187	8.2	83.2	75.0
370	Humboldt	3664310	429249	117.0	92.0	27286	62440	35154	9.6	84.6	75.0
431	St. Louis	4110350	483746	117.2	95.5	36894	84427	47532	11.6	86.6	75.0
97	Wellington	3502280	421506	117.2	88.8	21060	48191	27132	7.7	82.7	75.0
17	Val Marie	4052080	514730	118.1	91.6	29306	67062	37756	9.3	84.3	75.0
312	Morris	2628015	424055	118.5	80.5	6305	14428	8123	3.1	78.1	75.0
124	Kingsley	4012460	477385	119.0	87.3	21497	49193	27696	6.9	81.9	75.0
7	Souris Valley	3364470	403223	119.5	94.5	28641	65540	36899	11.0	86.0	75.0
164	Chaplin	2122440	283587	120.8	85.8	9989	22859	12869	6.1	81.1	75.0
6	Cambria	2857000	351623	121.1	101.6	33173	75910	42738	15.0	90.0	75.0
231	Happyland	4928190	603217	122.4	100.7	55434	126852	71417	14.5	89.5	75.0
126	Montmartre	3564207	437772	122.8	98.4	36400	83296	46895	13.2	88.2	75.0
351	Progress	3552780	448466	123.5	102.2	42261	96707	54446	15.3	90.3	75.0
167	Saskatchewan Landing	3075800	381055	123.7	98.0	30942	70805	39863	13.0	88.0	75.0
460	Birch Hills	3131590	387730	123.8	97.8	31188	71369	40181	12.8	87.8	75.0
190	Dufferin	3608990	463495	125.0	97.1	34791	79614	44823	12.4	87.4	75.0
104	Gravelbourg	3593770	452672	125.8	103.2	44287	101344	57057	15.9	90.9	75.0
35	Benson	4126030	520225	125.9	107.0	57771	132198	74427	18.0	85.0	75.0
427	Tisdale	4913215	621417	126.5	89.1	30209	69129	38920	7.9	82.9	75.0
78	Grassy Creek	2143220	280237	127.7	99.5	22937	52487	29550	13.8	88.8	75.0
155	Wolseley	3304080	424715	128.1	102.1	39086	89441	50356	15.2	90.2	75.0

APPENDIX III-10 (continued)

IMPACT OF PARTIAL AND FULL EQUALIZATION

ALL MUNICIPALITIES (FROM MOST WEALTHY TO LEAST WEALTHY)[1]

RM #	RM Name	1984 Equalized Assessment	Standard Gross Annual Expenditure	Gross Theoretical Mill Rate Requirement	Mill Rate Requirement After Conditional Grant	1985 Actual Equalization Grant	Full Equalization Grant	Increase in Equalization	Increase in Equalization in Mills	Mill Rate Requirement After Conditional & 1985 Actual Equalization Grant	Mill Rate After Conditional & Full 1985 Equalization Grant
92	Walpole	$3280162	$424476	129.4	93.2	$26060	$59633	$33574	10.2	85.2	75.0
410	Round Valley	2707940	354769	129.4	99.2	28685	65640	36956	13.6	88.6	75.0
340	Wolverine	2037230	407082	129.6	85.0	8885	20332	11447	5.6	80.6	75.0
401	Hoodoo	4469950	579555	129.7	98.7	46373	106117	59744	13.4	88.4	75.0
105	Glen Bain	3389680	440129	129.8	104.0	42957	98301	55343	16.3	91.3	75.0
487	Nipawin	4400919	579316	131.6	101.4	50792	116228	65437	14.9	89.9	75.0
315	Montrose	1865730	312969	131.9	97.6	18426	42165	23739	12.7	87.7	75.0
61	Antler	2994600	396679	132.5	100.9	33933	77650	43717	14.6	89.6	75.0
406	Mayfield	2477400	330071	133.2	105.3	32793	75040	42248	17.1	92.1	75.0
31	Storthoaks	2457120	329007	133.2	99.3	26071	59659	33588	13.7	88.7	75.0
138	Webb	3915130	536272	133.3	107.0	54698	125167	70469	18.0	93.0	75.0
66	Griffin	3675760	491247	133.3	105.3	48735	111523	62787	17.1	92.1	75.0
253	Willner	2512640	343028	133.5	108.9	37256	85254	47998	19.1	94.1	75.0
220	McKillop	2685195	359591	133.8	105.1	35367	80932	45565	17.0	92.0	75.0
184	Grayson	3167950	424168	133.9	104.3	40563	92821	52258	16.5	91.5	75.0
93	Wawken	2615640	350656	134.1	100.9	29627	67797	38170	14.6	89.6	75.0
64	Brock	2745560	373262	134.1	101.0	31231	71467	40236	14.7	89.7	75.0
106	Whiska Creek	3230555	433445	134.2	99.8	34955	79989	45034	13.9	88.9	75.0
95	Golden West	2822403	379598	134.4	99.3	29934	68500	38565	13.7	88.7	75.0
8	Lake Alma	2355570	318123	134.9	101.0	26774	61268	34494	14.6	89.6	75.0
244	Orkney	3692121	555186	135.2	95.3	32721	74876	42155	11.4	86.4	75.0
292	Milton	2013650	280060	135.5	111.5	32154	73579	41425	20.6	95.6	75.0
38	Laurier	2571260	363385	135.5	100.1	28226	64590	36364	14.1	89.1	75.0
213	Saltcoats	2939670	429321	135.8	103.0	35906	82164	46253	15.7	90.7	75.0
108	Bone Creek	3640790	497010	136.5	106.6	50340	115195	64855	17.8	92.8	75.0
141	Big Stick	1726270	244745	136.6	103.0	21138	48370	27232	15.8	90.8	75.0
189	Lumsden	3534270	490020	136.7	104.4	45469	104049	58580	16.6	91.6	75.0
79	Arlington	3302610	452084	136.8	101.9	38852	88906	50054	15.2	90.2	75.0
243	Wallace	3887599	535249	137.5	102.6	46804	107103	60299	15.5	90.5	75.0
222	Craik	2989810	420317	140.2	106.2	40699	93133	52434	17.5	92.5	75.0
131	Baildon	2636230	379323	140.5	108.7	38858	88920	50062	19.0	94.0	75.0
211	Churchbridge	3371265	529997	141.1	109.2	50311	115129	64817	19.2	94.2	75.0
91	Maryfield	2465716	348836	141.4	103.8	31043	71037	39994	16.2	91.2	75.0
166	Excelsior	4605825	653186	141.5	105.1	60483	138405	77922	16.9	91.9	75.0
10	Happy Valley	1034890	147482	141.9	112.8	17081	39088	22006	21.3	96.3	75.0
157	South Qu'Appelle	3204571	456859	141.9	113.6	54083	123761	69677	21.7	96.7	75.0
218	Cupar	3738410	532250	142.1	109.0	55562	127143	71582	19.1	94.1	75.0
71	Excel	3002135	436345	142.4	108.1	43412	99341	55926	18.6	93.6	75.0
99	Caledonia	2962095	426351	142.4	106.5	40723	93188	52465	17.7	92.7	75.0
165	Morse	4028050	576395	142.5	102.3	48055	109966	61911	15.4	90.4	75.0
271	Cote	2719890	391820	142.9	111.0	42742	97807	55065	20.2	95.2	75.0
338	Lakeside	2875240	411974	143.2	113.2	48048	109949	61901	21.5	96.5	75.0
428	Star City	3978460	591633	143.5	98.8	41431	94807	53376	13.4	88.4	75.0
225	Canaan	1925540	277009	143.7	109.7	29182	66773	37596	19.5	94.5	75.0
96	Fillmore	3031930	436729	143.8	110.5	46970	107482	60512	20.0	95.0	75.0

APPENDIX III-10 (continued)

IMPACT OF PARTIAL AND FULL EQUALIZATION
ALL MUNICIPALITIES (FROM MOST WEALTHY TO LEAST WEALTHY)[1]

RM #	RM Name	1984 Equalized Assessment	Standard Gross Annual Expenditure	Gross Theoretical Mill Rate Requirement +	Mill Rate Requirement After Conditional Grant	1985 Actual Equalization Grant	Full Equalization Grant	Increase in Equalization	Increase in Equalization in Mills	Mill Rate Requirement After Conditional & 1985 Actual Equalization Grant	Mill Rate After Conditional & Full 1985 Equalization Grant
185	McLeod	$3659350	$526805	144.0	110.9	$57329	$131188	$73859	20.2	95.2	75.0
136	Coulee	2576635	371653	144.2	106.3	35198	80546	45347	17.6	92.6	75.0
442	Manitou Lake	3383226	489332	144.6	99.4	36104	82618	46514	13.7	88.7	75.0
19	Frontier	2833405	416216	145.1	120.0	55719	127503	71784	25.3	100.3	75.0
216	Tullymet	1857340	269782	145.3	106.6	25681	58766	33085	17.8	92.8	75.0
261	Chesterfield	5268035	775811	145.5	108.4	76799	175742	98943	18.8	93.8	75.0
135	Lawtonia	2728595	397506	145.7	112.1	44250	101258	57008	20.9	95.9	75.0
381	Grass Lake	2942770	446576	145.8	108.4	42888	98141	55254	18.8	93.8	75.0
74	Wood River	3201960	469369	146.5	122.3	66129	151325	85196	26.6	101.6	75.0
337	Lakeview	2740255	402038	146.7	124.5	59288	135670	76382	27.9	102.9	75.0
304	Buchanan	3117809	457662	146.8	115.2	54758	125305	70547	22.6	97.6	75.0
223	Huron	2211090	334307	146.9	110.6	34437	78803	44366	20.1	95.1	75.0
373	Aberdeen	2382744	451845	147.0	105.4	31686	72507	40821	17.1	92.1	75.0
107	Lac Pelletier	2544405	374022	147.0	111.6	40685	93100	52415	20.6	95.6	75.0
429	Flett's Springs	4102776	605154	147.5	107.8	58718	134366	75648	18.4	93.4	75.0
171	Fox Valley	2700680	433811	148.7	118.6	51433	117696	66263	24.5	99.5	75.0
403	Rosthern	3608965	539351	149.3	113.1	60041	137393	77352	21.4	96.4	75.0
232	Deer Forks	2198640	328527	149.4	106.0	29795	68180	38385	17.5	92.5	75.0
458	Willow Creek	4203020	632699	150.5	106.5	57802	132269	74467	17.7	92.7	75.0
109	Carmichael	3035190	457421	150.6	111.5	48426	110815	62389	20.6	95.6	75.0
346	Perdue	2377876	408371	152.4	111.4	37804	86507	48704	20.5	95.5	75.0
369	St. Peter	3524557	537471	152.5	120.3	69834	159803	89969	25.5	100.5	75.0
350	Mariposa	2019474	318653	152.7	118.5	38398	87867	49469	24.5	99.5	75.0
217	Lipton	2568415	392961	153.0	116.3	46333	106024	59692	23.2	98.2	75.0
288	Pleasant Valley	2194920	337958	153.9	124.9	47863	109527	61663	28.1	103.1	75.0
252	Arm River	2211360	340790	154.1	113.4	37099	84894	47795	21.6	96.6	75.0
122	Martin	2219260	360764	154.4	101.9	26107	59742	33635	15.2	90.2	75.0
63	Moose Mountain	2515320	389574	154.9	108.6	36922	84490	47568	18.9	93.9	75.0
154	Elcapo	2799040	438363	155.0	119.4	54285	124221	69937	25.0	100.0	75.0
336	Sasman	3835305	595181	155.1	118.5	72874	166759	93885	24.5	99.5	75.0
214	Cana	2417110	376741	155.9	120.5	48092	110051	61959	25.6	100.6	75.0
316	Harris	2297660	373349	155.9	112.4	37552	85932	48380	21.1	96.1	75.0
273	Sliding Hills	4050240	632399	156.0	113.1	67400	154233	86833	21.4	96.4	75.0
281	Wood Creek	2340120	367364	156.0	122.3	48350	110641	62291	26.6	101.6	75.0
1	Argyle	2021980	317742	156.3	114.1	34531	79019	44488	22.0	97.0	75.0
307	Elfros	2447630	384498	157.1	121.0	49202	112591	63389	25.9	100.9	73.0
72	Lake of the Rivers	2330395	369807	158.2	119.9	45756	104705	58949	25.3	100.3	75.0
404	Laird	3111915	492346	158.2	122.4	64514	147629	83115	26.7	101.7	75.0
77	Wise Creek	1561860	259662	158.4	119.5	30393	69550	39156	25.1	100.1	75.0
42	Willow Bunch	3021850	480364	158.7	117.0	55423	126827	71404	23.6	98.6	75.0
436	Douglas	2692130	429685	159.6	117.7	50211	114900	64689	24.0	99.0	75.0
193	Eyebrow	2697620	431391	159.9	120.1	53202	121744	68542	25.4	100.4	75.0
440	Hillsdale	2957579	473510	160.1	113.9	50212	114902	64690	21.9	96.9	75.0
134	Shamrock	1866300	308929	160.3	119.6	36342	83162	46820	25.1	100.1	75.0
367	Ponass Lake	3019208	485207	160.7	120.8	60428	138280	77851	25.8	100.8	75.0

APPENDIX III-10 (continued)

IMPACT OF PARTIAL AND FULL EQUALIZATION
ALL MUNICIPALITIES (FROM MOST WEALTHY TO LEAST WEALTHY)[1]

RM #	RM Name	1984 Equalized Assessment	Standard Gross Annual Expenditure	Gross Theoretical Mill Rate Requirement	Mill Rate Requirement After Conditional Grant	1985 Actual Equalization Grant	Full Equalization Grant	Increase in Equalization	Increase in Equalization in Mills	Mill Rate Requirement After Conditional & 1985 Actual Equalization Grant	Mill Rate After Conditional & Full 1985 Equalization Grant
132	Hillsborough	$810170	$130361	160.9	123.5	$17168	$39285	$22118	27.3	102.3	75.0
434	Blaine Lake	2644750	428293	161.9	124.1	56713	129778	73065	27.6	102.6	75.0
376	Eagle Creek	2614780	434759	162.0	128.9	61635	141041	79406	30.4	105.4	75.0
438	Battle River	1975220	326148	163.1	130.6	48027	109901	61874	31.3	106.3	75.0
439	Cut Knife	2000156	330812	163.2	115.2	35094	80306	45212	22.6	97.6	75.0
501	Frenchman Butte	4667710	767076	163.6	112.8	77104	176439	99335	21.3	96.3	75.0
46	Glen McPherson	1241540	203599	164.0	124.5	26867	61481	34614	27.9	102.9	75.0
282	McCraney	2377510	395136	164.1	121.6	48416	110792	62376	26.2	101.2	75.0
9	Surprise Valley	1727860	298111	164.2	113.9	29365	67196	37832	21.9	96.9	75.0
256	King George	1858770	305564	164.4	120.9	37259	85262	48002	25.8	100.8	75.0
308	Big Quill	2772030	455770	164.4	118.1	52222	119502	67280	24.3	99.3	75.0
284	Rudy	2248943	374598	164.5	123.9	48068	109996	61928	27.5	102.5	75.0
133	Rodgers	1653960	273991	165.7	120.2	32677	74776	42099	25.5	100.5	75.0
380	Tramping Lake	2053540	341645	165.8	121.5	41684	95387	53703	26.2	101.2	75.0
339	Leroy	3167221	556526	166.8	125.3	69564	159185	89621	28.3	103.3	75.0
277	Emerald	2965990	496643	167.4	121.5	60232	137830	77598	26.2	101.2	75.0
283	Rosedale	2860840	483148	167.6	125.2	62772	143643	80871	28.3	103.3	75.0
400	Three Lakes	2775640	465275	167.6	122.5	57555	131704	74149	26.7	101.7	75.0
394	Hudson Bay	3270135	551705	167.7	120.9	65579	150066	84487	25.8	100.8	75.0
163	Wheatlands	2655475	446882	167.7	113.5	44700	102289	57589	21.7	96.7	75.0
73	Stonehenge	3123380	524277	167.9	129.6	74497	170474	95977	30.7	105.7	75.0
368	Spalding	3169310	532666	168.1	130.6	77047	176309	99262	31.3	106.3	75.0
76	Auvergne	2556270	431589	168.1	122.8	53397	122190	68793	26.9	101.9	75.0
371	Bayne	2544980	488037	168.2	117.2	46966	107475	60508	23.8	98.8	75.0
399	Lake Lenore	2333542	394202	168.9	126.3	52283	119641	67358	28.9	103.9	75.0
142	Enterprise	3055010	521926	169.0	119.2	59035	135093	76057	24.9	99.9	75.0
103	Button	2450490	414916	169.1	127.3	55974	128087	72113	29.4	104.4	75.0
221	Sarnia	2783330	470981	169.1	134.4	72213	165246	93034	33.4	108.4	75.0
309	Prairie Rose	2030458	393142	169.4	121.9	41606	95208	53602	26.4	101.4	75.0
313	Lost River	1406360	343041	169.4	100.5	15672	35862	20190	14.4	89.4	75.0
75	Pinto Creek	2583550	437951	169.5	135.8	68599	156976	88378	34.2	109.2	75.0
317	Marriott	2288378	390500	170.6	131.4	56441	129156	72715	31.8	106.8	75.0
493	Shellbrook	3703020	638869	172.5	132.0	92206	210998	118792	32.1	107.1	75.0
280	Wreford	1751690	332400	173.4	127.4	40081	91718	51638	29.5	104.5	75.0
278	Kutawa	1465610	254237	173.5	122.2	30243	69206	38963	26.6	101.6	75.0
100	Elmsthorpe	2330080	408363	174.1	137.6	63783	145956	82173	35.3	110.3	75.0
102	Lake Johnston	1526520	282082	174.4	127.5	35016	80127	45112	29.6	104.6	75.0
398	Pleasantdale	2566670	452158	174.5	127.4	58785	134519	75734	29.5	104.5	75.0
251	Big Arm	2092220	370696	175.3	131.3	51457	117750	66293	31.7	106.7	75.0
18	Lone Tree	1408015	259545	175.6	145.7	43477	99490	56013	39.8	114.8	75.0
276	Foam Lake	4150015	732481	175.9	127.0	94287	215759	121472	29.3	104.3	75.0
39	The Gap	1801760	322252	175.9	122.6	37487	85782	48295	26.8	101.8	75.0
279	Mount Hope	3411260	606699	176.1	131.9	84837	194135	109298	32.0	107.0	75.0
379	Reford	2238273	395943	176.9	119.7	43742	100096	56354	25.2	100.2	75.0
457	Connaught	3545491	629116	177.4	120.0	69645	159370	89725	25.3	100.3	75.0

APPENDIX III-10 (continued)

IMPACT OF PARTIAL AND FULL EQUALIZATION

ALL MUNICIPALITIES (FROM MOST WEALTHY TO LEAST WEALTHY)[1]

RM #	RM Name	1984 Equalized Assessment	Standard Gross Annual Expenditure	Gross Theoretical Mill Rate Requirement	Mill Rate Requirement After Conditional Grant	1985 Actual Equalization Grant	Full Equalization Grant	Increase in Equalization	Increase in Equalization in Mills	Mill Rate Requirement After Conditional & 1985 Actual Equalization Grant	Mill Rate After Conditional & Full 1985 Equalization Grant
430	Invergordon	$3127765	$556192	177.8	128.0	$72483	$165865	$93382	29.9	104.9	75.0
470	Paynton	1222669	226140	178.2	131.5	30178	69056	38879	31.8	106.8	75.0
411	Senlac	2042970	364507	178.4	120.5	40577	92853	52276	25.6	100.6	75.0
45	Mankota	2806470	504557	179.7	126.4	63051	144281	81230	28.9	103.9	75.0
274	Good Lake	2521580	457089	181.3	131.3	62039	141965	79926	31.7	106.7	75.0
169	Pittville	2723900	500482	181.5	127.6	62660	143386	80726	29.6	104.6	75.0
194	Enfield	2310090	419450	181.6	127.4	52868	120979	68111	29.5	104.5	75.0
349	Grandview	2004381	364028	181.6	130.3	48403	110762	62359	31.1	106.1	75.0
219	Longlaketon	3298200	601526	182.2	134.5	85715	196144	110429	33.5	108.5	75.0
153	Willowdale	1784780	353721	182.4	126.3	40027	91595	51568	28.9	103.9	75.0
301	St. Philips	1595910	292283	183.1	135.3	42026	96170	54143	33.9	108.9	75.0
409	Buffalo	2711895	501304	184.9	132.7	68416	156558	88142	32.5	107.5	75.0
248	Touchwood	1993240	370499	185.6	141.7	58073	132887	74817	37.5	112.5	75.0
488	Torch River	6317920	1179284	186.5	135.2	166208	380339	214131	33.9	108.9	75.0
250	Last Mountain Valley	2473920	467391	187.5	147.7	78564	179780	101216	40.9	115.9	75.0
68	Brokenshell	2169200	417788	187.7	149.7	70773	161952	91179	42.0	117.0	75.0
459	Kinistino	3929560	740448	188.4	132.4	98482	225360	126878	32.3	107.3	75.0
499	Mervin	2323160	442664	190.3	127.1	52873	120990	68117	29.3	104.3	75.0
51	Reno	2974700	611207	190.7	136.8	80298	183747	103450	34.8	109.8	75.0
402	Fish Creek	1995690	380693	190.8	136.5	53592	122635	69044	34.6	109.6	75.0
333	Clayton	3230968	622403	192.5	132.4	81045	185458	104413	32.3	107.3	75.0
255	Coteau	1980640	391988	192.9	137.8	54313	124285	69973	35.3	110.3	75.0
486	Moose Range	4246787	849119	195.5	135.8	112835	258205	145369	34.2	109.2	75.0
69	Norton	2003985	392428	195.8	150.7	66250	151601	85352	42.6	117.6	75.0
49	White Valley	4387530	867945	197.7	137.2	119336	273080	153744	35.0	110.0	75.0
40	Bengough	2139510	423913	198.1	133.4	54621	124990	70369	32.9	107.9	75.0
426	Bjorkdale	3120814	624132	199.9	129.1	73768	168805	95037	30.5	105.5	75.0
331	Livingston	2065500	415771	201.3	132.2	51630	118147	66517	32.2	107.2	75.0
372	Grant	1978730	423382	201.5	134.3	51260	117299	66039	33.4	108.4	75.0
347	Biggar	3153382	639706	202.8	149.5	102691	234990	132299	42.0	117.0	75.0
241	Calder	2117140	442468	208.9	163.5	81861	187325	105464	49.8	124.8	75.0
94	Hazelwood	1821290	384135	209.1	137.9	50023	114468	64446	35.4	110.4	75.0
366	Kelvington	2366125	507630	213.2	141.8	69071	158057	88986	37.6	112.6	75.0
303	Keys	2559323	547778	214.0	136.3	68559	156886	88327	34.5	109.5	75.0
70	Key West	1902355	412725	214.6	166.5	76100	174142	98042	51.5	186.5	75.0
456	Arborfield	2269696	487794	214.9	133.2	57756	132164	74409	32.8	107.8	75.0
588	Meadow Lake	4261086	931488	215.3	145.4	131166	300151	168985	39.7	114.7	75.0
378	Rosemount	1428830	308971	216.2	139.6	40342	92317	51974	36.4	111.4	75.0
529	Greenfield	1602010	352786	217.3	130.8	39043	89344	50301	31.4	106.4	75.0
305	Invermay	2225300	484690	217.6	157.3	80014	183098	103084	46.3	121.3	75.0
110	Piapot	2807915	619142	219.0	141.7	81882	187372	105491	37.6	112.6	75.0
498	Parkdale	2665890	586474	220.0	145.5	82179	188052	105873	39.7	114.7	75.0
43	Old Post	3604860	795584	220.5	142.4	106098	242787	136689	37.9	112.9	75.0
494	Canwood	4478340	995778	222.3	157.9	162316	371434	209117	46.7	121.7	75.0
408	Prairie	1790570	398518	222.5	148.1	57199	130891	73691	41.2	116.2	75.0

APPENDIX III-10 (continued)

IMPACT OF PARTIAL AND FULL EQUALIZATION
ALL MUNICIPALITIES (FROM MOST WEALTHY TO LEAST WEALTHY)[1]

RM #	RM Name	1984 Equalized Assessment	Standard Gross Annual Expenditure	Gross Theoretical Mill Rate Requirement	Mill Rate Requirement After Conditional Grant	1985 Actual Equalization Grant	Full Equalization Grant	Increase in Equalization	Increase in Equalization in Mills	Mill Rate Requirement After Conditional & 1985 Actual Equalization Grant	Mill Rate After Conditional & Full 1985 Equalization Grant
246	Ituna Bon Accord	$1894760	$433925	224.2	155.0	$ 66274	$151657	$85383	45.1	120.1	75.0
215	Stanley	2508350	565125	225.2	153.5	86015	196830	110815	44.2	119.2	75.0
405	Great Bend	1820400	413415	227.1	160.5	67985	155571	87587	48.1	123.1	75.0
395	Porcupine	4051490	921724	227.5	142.8	120058	274732	154674	38.2	113.2	75.0
224	Maple Bush	1441051	332383	230.7	171.5	60745	139004	78259	54.3	129.3	75.0
397	Barrier Valley	1561505	369438	233.8	156.2	55409	126794	71385	45.7	120.7	75.0
275	Insinger	2103350	492444	234.1	150.9	69755	159623	89868	42.7	117.7	75.0
111	Maple Creek	3395172	811952	234.2	164.6	132909	304140	171231	50.4	125.4	75.0
520	Paddockwood	2153772	514189	236.5	169.8	89244	204221	114976	53.4	128.4	75.0
496	Spiritwood	4000340	967489	239.9	156.6	142596	326308	183711	45.9	120.9	75.0
247	Kellross	2410140	582401	241.6	175.5	105860	242243	136383	56.6	131.6	75.0
334	Preeceville	3211290	793151	245.7	159.7	118806	271868	153062	47.7	122.7	75.0
245	Garry	2068210	524946	248.3	158.9	75820	173502	97682	47.2	122.2	75.0
12	Poplar Valley	1427655	357924	250.1	176.5	63324	144907	81583	57.1	132.1	75.0
490	Garden River	1776537	450507	253.4	172.5	75694	173212	97519	54.9	129.9	75.0
335	Hazel Dell	1943250	508141	256.1	170.7	81285	186008	104722	53.9	128.9	75.0
464	Leask	2517740	683657	267.6	178.0	113293	259252	145959	58.0	133.0	75.0
101	Terrell	1654220	458583	277.1	187.6	81427	186331	104905	63.4	138.4	75.0
463	Duck Lake	1496030	426208	279.6	211.0	88892	203415	114523	76.6	151.6	75.0
561	Loon Lake	1908635	542705	280.4	194.0	99263	227147	127884	67.0	142.0	75.0
469	Turtle River	1638410	463237	282.1	184.5	78386	179373	100987	61.6	136.6	75.0
44	Waverley	1892470	553932	292.7	191.4	96289	220340	124052	65.6	140.6	75.0
377	Glenside	1479245	451926	305.3	196.2	78373	179344	100970	68.3	143.3	75.0
622	Beaver River	1659326	538878	319.7	230.9	113033	258656	145623	87.8	162.8	75.0
467	Round Hill	1572420	537596	334.9	193.1	81118	185624	104506	66.5	141.5	75.0
435	Redberry	2007710	676268	336.8	227.5	133781	306136	172354	85.8	160.8	75.0
555	Big River	882815	318708	342.0	230.7	60048	137410	77362	87.6	162.6	75.0
466	Meeting Lake	1545410	569040	352.0	215.2	94710	216728	122018	79.0	154.0	75.0
497	Medstead	1326265	491355	368.4	249.1	100881	230850	129968	98.0	173.0	75.0

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[1] See notes for Appendex III-9 for an explanation of the different column headings.

[2] The computation of various mill rate requirements for these municipalities are misleading, either because of the receipt of large amounts of special grants-in-lieu of taxes or potash tax sharing.

[3] The computation of mill rate requirements for this municipality are misleading because of the unusually small designated road network. This tends to overstate the wealth of the municipality and understate the mill rates required.

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APPENDIX III-11

COMPARISON OF STANDARD AND ACTUAL EXPENDITURES AND MILL RATES MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

Rural Municipality Number and Name	Gross Theoretical Mill Rate Requirement	Standard Gross Annual Expenditure	Gross Actual Expenditures (Average 1982-84)	Gross Actual Expenditure as % of Standard	Actual 1985 Mill Rates
Most Wealthy Municipalities					
159 Sherwood	21.0 mills	$433,565	$ 538,862	124.3%	23.0 mills
5 Estevan	49.7	452,696	766,134	169.2	37.0
161 Moose Jaw	50.9	415,764	368,111	88.5	35.3
471 Eldon	58.8	546,442	829,148	151.7	76.4
319 Winslow	62.4	429,437	451,021	105.0	42.8
128 Lajord	65.7	463,678	635,517	137.1	67.0
320 Oakdale	69.0	425,979	527,211	123.8	83.7
37 Lomond	70.1	423,655	427,026	100.8	63.4
168 Riverside	71.1	611,901	710,496	116.1	73.0
4 Coalfields	71.7	466,026	441,270	94.7	62.0
472 Wilton	75.2	825,081	1,406,253	170.4	111.1
34 Browning	76.3	585,769	930,869	158.9	91.0
62 Caron	79.0	326,791	320,171	98.0	50.0
36 Cymri	80.7	497,993	857,247	172.1	99.2
290 Kindersley	81.2	918,302	892,994	97.2	57.9
AVERAGE	65.5 mills	$521,539	$ 673,489	127.2%	64.9 mills
Least Wealthy Municipalities					
490 Garden River	253.4 mills	$450,507	$ 317,482	70.5%	114.0 mills
335 Hazel Dell	256.1	508,141	356,420	70.1	110.0
464 Leask	267.6	683,657	629,963	92.1	124.1
101 Terrell	277.1	458,583	492,384	107.4	120.0
463 Duck Lake	279.6	426,208	283,698	66.6	146.7
561 Loon Lake	280.4	542,705	380,532	70.1	90.0
469 Turtle River	282.1	463,237	440,564	95.1	102.2
44 Waverly	292.7	553,932	372,742	67.3	89.0
377 Glenside	305.3	451,926	311,267	68.9	92.0
622 Beaver River	319.7	538,878	338,863	62.9	95.0
467 Round Hill	334.9	537,596	310,226	57.7	108.9
435 Redberry	336.8	676,268	514,473	76.1	100.2
555 Big River	342.0	318,708	213,397	67.0	106.8
466 Meeting Lake	352.0	569,040	356,428	62.6	128.8
497 Medstead	368.4	491,355	302,884	61.6	123.3
AVERAGE	303.2 mills	$511,383	$ 374,755	73.1%	110.1 mills

NOTE: See Notes for Appendix III-9 for an explanation of column headings and for an explanation for the exclusion of certain municipalities from the list of the most wealthy municipalities.

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APPENDIX III-12

COMPARISON OF MUNICIPAL TAXATION OF FARMLAND IN MUNICIPALITIES WITH SMALL AND LARGE ASSESSMENT BASES

Rural Municipality	Equalized Assessment	1985 Equalized Municipal Mill Rate	1985 Municipal Tax Levy
Municipality with a Relatively Large Assessment Base:			
Redburn #130			
Parcel A	$1,675	56.3 mills	$ 94
Parcel B	4,315	56.3 mills	243
Municipality with Similar Soils but with a Relatively Small Assessment Base:			
Terrell #101			
Parcel A	$ 900	120.0 mills	$108
Parcel B	3,110	120.0 mills	373

NOTES:

(1) The terms "relatively large" or "relatively small" assessment bases refer to the size of the local tax base relative to the standard expenditure requirement of the municipality. In the absence of any grants, R.M. #130 Redburn could meet its standard expenditure requirement with a mill rate of 84 mills, indicating a relatively large local tax base. The R.M. of Terrell, #101, on the other hand, would require a mill rate of 277 mills, indicating a relatively small local tax base.

(2) Under the current distribution of grants, municipalities with large local tax bases tend to have low mill rates, while municipalities with small local tax bases tend to have high mill rates. This pattern is reflected in two municipalities used in this appendix.

(3) Even though R.M. #101 Terrell has a small overall local tax base, it has some parcels of farmland that are assessed relatively highly. Parcel "B" has an assessment of $3,110 and a municipality tax of $373. Parcel "B" in the R.M. of Redburn #130, on the other hand, has a municipal tax of $243, even though the assessment is higher at $4,315.

The high assessed parcel in R.M. #101 pays 53% more in taxes than the high assessed parcel in R.M. #130.

The low assessed parcel in R.M. #130 pays only $94 in municipal taxes, compared to $108 for the low assessed parcel in R.M. #101, even though the former has an assessment which is 86% higher.

The foregoing points out the fallacious reasoning of those who argue that it is fair to have a grant system which produces high mill rates in municipalities with a small local tax base and low mill rates in municipalities with a large local tax base.

(4) Only this one comparison is made for illustrative purposes.The Commission assembled other examples that are not portrayed in this appendix.

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APPENDIX III-13

DEGREE OF EQUALIZATION IN CONDITIONAL ROAD CONSTRUCTION/RECONSTRUCTION GRANTS
TOTAL ROAD NETWORK
MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

	Item	Average 15 Most Wealthy Municipalities	Average 15 Least Wealthy Municipalities	Average 50 Most Wealthy Municipalities	Average 50 Least Wealthy Municipalities	Average 100 Most Wealthy Municipalities	Average 100 Least Wealthy Municipalities
1)	Assessment	$8,358,153	$1,686,699	$5,875,524	$2,281,883	$4,656,365	$2,428,557
2)	Gross Annual Road Construction	249,383	299,687	230,649	313,877	227,406	281,719
3)	Net Annual Local Construction Cost After Provincial Share Deducted	179,231	154,636	163,652	164,902	155,381	155,634
4)	Amount of Provincial Share	70,152	145,051	66,997	148,975	72,025	126,085
5)	Provincial Assistance as Percentage of Gross Cost	29.6%	48.2%	28.6%	47.4%	31.4%	37.3%
6)	Mills Requires to Meet Net Local Construction Cost	23.0 mills	93.5 mills	30.7 mills	74.7 mills	44.4 mills	65.8 mills

NOTE:

The Commission recognizes that costs per kilometer of roads used in the equalization calculation do not coincide exactly with the costs used in the calculation of the conditional shared cost road construction grants. The difference is due mainly to a lag in the use of current cost data in the equalization calculation. These differences, however, do not affect the basic validity of the comparison made in this table.

All averages are simple, not weighted averages.

EXPLANATIONS:

Item 1) This is 1984 equalized assessment on which the 1985 equalization grant is based.

Item 2) This is the recognized road construction costs used in the 1985 equalization grant calculation, before the provincial share of costs is deducted.

Item 3) This is the recognized construction cost used in the 1985 equalization calculation. The provincial share of costs has been deducted from the gross cost.

Item 4) This is Item 2) minus Item 3). This is the theoretical provincial share on a long-term basis. Separate formulas described earlier govern the actual allocation of construction grants from year to year.

Item 5) This is the simple average of Item 4) as a percent of Item 2) for individual municipalities. A similar, but numerically different result can be obtained by expressing the amounts shown in this table for Item 4) as a percentage of Item 3).

Item 6) This is the simple average of Item 3) the net annual local construction cost after deducting the provincial share expressed in mills for individual municipalities. A similar, but numerically different result can be obtained by dividing the amounts shown in this table for Item 3) by Item 1) times 1,000.

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APPENDIX III-14

DEGREE OF EQUALIZATION IN CONDITIONAL ROAD CONSTRUCTION/RECONSTRUCTION GRANTS
DESIGNATED NETWORK ONLY
MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

	Item	Average 15 Most Wealthy Municipalities	Average 15 Least Wealthy Municipalities	Average 50 Most Wealthy Municipalities	Average 50 Least Wealthy Municipalities	Average 100 Most Wealthy Municipalities	Average 100 Least Wealthy Municipalities
1)	Assessment	$8,358,153	$1,686,699	$5,875,524	$2,281,883	$4,656,365	$2,428,557
2)	Gross Annual Road Construction	131,901	191,545	120,196	197,234	123,367	170,560
3)	Net Annual Local Construction Cost After Provincial Share Deducted	61,749	46,495	53,200	48,259	51,342	44,476
4)	Amount of Provincial Share	70,152	145,051	66,997	148,975	72,025	126,085
5)	Provincial Assistance as Percentage of Gross Cost	52.8%	75.7%	55.6%	75.4%	58.3%	73.6%
6)	Mills Requires to Meet Net Local Construction Cost	8.1 mills	28.0 mills	10.0 mills	22.1 mills	12.5 mills	19.0 mills

NOTES AND EXPLANATIONS:

The same notes and explanations apply for this table as in the table for Appendix III-13, except that the data relate to only the designated road system on which there is cost sharing, not the entire road system.

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APPENDIX III-15

ANALYSIS OF IMPACT OF OPTIONS TO ACHIEVE GREATER EQUALIZATION[1]

		Options Without An Overall Increase in Grants				Options With an Aggregate Increase in Grants			
		Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8
Item	Current 1985 Arrangements[2]	Treat Basic as Recognized Expenditures	Eliminate Basic Grant	Eliminate Basic, Reduce Conditional Grants	Eliminate Basic Reallocate Equalization	Provide Full Equalization Payout	Eliminate Basic Provide Full Equalization	Eliminate Basic, Reduce Conditional Provide Full Equalization	Eliminate Basic 20% - 80% Conditional Provide Full Equalization
Total Grants									
Conditional (Long Term)[3]	$34,486,347	$34,486,347	$34,486,346	$21,898,468	$34,486,346	$34,486,346	$34,486,347	$21,898,468	$24,226,819
Basic	2,773,306	2,773,306	—	—	—	2,773,306	—	—	—
Equalization	13,231,597	13,230,219	16,005,085	28,590,884	15,987,930	30,278,254	30,278,254	42,113,543	39,268,579
TOTAL	$50,491,250	$50,489,872	$50,491,431	$50,489,352	$50,474,276	$67,537,906	$64,764,601	$64,012,010	$63,495,398
Change in Total From Current (1985)	—	$0.0 million	$0.0 million	$0.0 million	$0.0 million	$17.0 million	$14.3 million	$13.5 million	$13.0 million
Average Total Grants Received by Groupings of Municipalities[4]									
15 Most Wealthy	$ 102,327	$ 102,326	$ 90,118	$ 70,601	$ 90,118	$ 102,326	$ 90,118	$ 70,601	$ 51,662
15 Least Wealthy	269,689	272,835	279,127	286,972	341,177	387,912	378,115	378,115	378,115
50 Most Wealthy	97,971	97,034	98,532	73,107	84,434	102,336	92,187	78,346	68,227
50 Least Wealthy	272,836	275,169	280,362	285,403	322,472	382,813	372,446	372,446	372,446
100 Most Wealthy	114,153	112,798	107,704	98,812	93,566	131,860	122,531	115,005	109,839
100 Least Wealthy	234,878	236,502	240,556	245,774	266,909	329,872	320,094	320,094	320,094
Mills Required to Finance Standard Annual Expenditures by Groupings of Municipalities[5]									
15 Most Wealthy	52.1 mills	52.1 mills	53.7 mills	56.2 mills	53.7 mills	52.1 mills	53.7 mills	56.2 mills	58.7 mills
15 Least Wealthy	140.7	138.8	134.9	130.2	96.9	69.1	75.0	75.0	75.0
50 Most Wealthy	59.7	59.9	61.4	64.1	62.4	58.7	60.5	62.9	64.5
50 Least Wealthy	121.4	120.2	117.8	115.2	96.9	70.3	75.0	75.0	75.0
100 Most Wealthy	70.3	70.6	71.6	73.4	75.6	65.2	67.4	68.9	69.7
100 Least Wealthy	111.9	111.1	109.3	107.0	96.9	70.8	75.0	75.0	75.0
Percentage of Theoretical Equalization Entitlement Paid[6]	43.70%	47.41%	52.86%	67.89%	100.00%	100.00%	100.00%	100.00%	100.00%
Computational[7]	75 mills	75 mills	75 mills	75 mills	96.9 mills	75 mills	75 mills	75 mills	75 mills

APPENDIX III-15 (continued)

ANALYSIS OF IMPACT OF OPTIONS TO ACHIEVE GREATER EQUALIZATION[1]

FOOTNOTES:

[1] See notes below for an explanation of each option.

[2] The 1985 arrangements are used as a base from which to make comparisons. All assessment, road mileages, etc. that were used in the 1985 grant calculations are also used in the various options.

[3] These are the conditional grants which municipalities are credited with receiving as part of the calculation of the equalization grant. They include the provincial share of road construction costs, maintenance grants and bridge grants.
This amount is not the same as what municipalities receive in a particular year but, instead, is intended to reflect what municipalities will receive on an average long-term annual basis.

[4] These are the average conditional, basic and equalization grants to which the municipalities would be eligible under the respective options. As noted in footnote 4, the conditional grants are long-term average grants that the municipalities are credited with receiving.
The groupings of municipalities are chosen on the basis of the mill rates they would have to levy to meet their standard annual expenditure requirements in the absence of provincial grants. The lower the mill rate, the wealthier the municipality and the higher the mill rate the less wealthy the municipality.

[5] These are the mill rates required for the groupings of municipalities to finance their standard annual expenditures taking into account the conditional, basic and equalization grants to which they would be entitled under the respective options.

[6] When the amount of monies allocated from the revenue sharing pool for equalization grants is less than the aggregate amount of equalization grant calculated for municipalities (their theoretical entitlement) each municipality is given only a percentage of its theoretical entitlement so as to match the total payout with the monies available. These percentages are the aggregate payouts as a percentage of the aggregate theoretical entitlements under the respective options.

[7] This is the theoretical mill rate or computational mill rate used in the calculation of the equalization grant.

EXPLANATION OF OPTIONS:

Option 1- Under this option, everything remains the same as under the 1985 formula, except that the basic grant is treated as local revenue in the calculation of the equalization grant.

Option 2- Under this option, the basic grant is eliminated and the monies are allocated to equalization. This permits a higher percentage of the equalization entitlement to be paid.

Option 3- Under this option, the basic grant is eliminated and the conditional road construction grants are reduced from their current percentages to 30% for main farm access roads, 40% for grid roads and 50% for primary grid roads. The "savings" are allocated to the equalization grant.

Option 4- Under this option, the basic grant is eliminated and allocated to equalization, and the computational mill rate is increased to the point where each municipality can receive 100% of its theoretical equalization grant entitlement.

Option 5- Under this option, nothing is changed in relation to the 1985 formulas, except that each municipality is given 100% of its theoretical equalization entitlement.

Option 6- Under this option, the basic grant is eliminated and allocated to equalization. Each municipality receives its full equalization entitlement.

Option 7- Under this option, the basic grant is eliminated, the conditional construction grants are reduced as in Option 3, and each municipality is given its full equalization entitlement.

Option 8- Under this option, the basic grant is eliminated, construction grants vary between 20% and 80%, depending on the wealth of the municipality, and each municipality is given its full equalization entitlement.

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APPENDIX III-16

URBAN REVENUE SHARING

RECOGNIZED EXPENDITURE AND RECOGNIZED LOCAL REVENUE FORMULAS

Recognized General Municipal Expenditures

Population Group	Formula
0 - 32	$ 5,596 + $ 96.68 x (population)
33 - 343	$ 8,829 + $182.68 x (population minus 33)
344 - 730	$ 65,654 + $239.09 x (population minus 344)
731 - 1,305	$ 158,215 + $368.79 x (population minus 731)
1,306 - 4,233	$ 335,775 + $332.00 x (population minus 1,306)
4,234 - 6,268	$1,307,956 + $497.54 x (population minus 4,234)
6,269 +	$2,320,389 + $424.44 x (population minus 6,269)

Recognized Police Expenditures

Population Group	Formula
500 - 4,580	$ 17,751 + $ 49.03 x (population minus 500)
4,581 - 16,532	$ 217,861 + $ 75.14 x (population minus 4,581)
16,532 +	$1,115,970 + $127.44 x (population minus 16,533)

(Some supplemental expenditure is recognized on a discretionary basis for certain communities which have high police expenditures arising from circumstances beyond the control of the municipality.)

Computational Mill Rate

Population Group	Formula
0 - 50	50.460 + 0.01562 x (population)
51 - 247	54.255 + 0.02168 x (population minus 51)
248 - 365	59.428 + 0.07689 x (population minus 248)
366 - 446	68.424 + 0.00381 x (population minus 366)
447 - 1,163	68.731 + 0.00001 x (population minus 447)
1,164 - 1,510	68.766 + 0.04616 x (population minus 1,164)
1,511 - 1,912	86.792 + 0.03061 x (population minus 1,511)
1,913 - 2,265	99.097 + 0.01758 x (population minus 1,913)
2,266 - 3,357	105.301 + 0.00059 x (population minus 2,266)
3,358 - 6,090	105.935 + 0.0008 x (population minus 3,358)
6,091 - 9,006	106.191 + 0.00437 x (population minus 6,091)
9,007 - 15,546	118.943 + 0.00012 x (population minus 9,007)
15,547 - 30,792	119.728 + 0.00001 x (population minus 15,547)
30,793 - 34,773	119.880 + 0.00312 x (population minus 30,793)
34,774 - 152,072	130.771 + 0.00001 x (population minus 34,774)
152,073 +	131.945 + 0.00073 x (population minus 152,073)

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APPENDIX III-17

POLICING ARRANGEMENTS AND COSTS

BACKGROUND

According to **The Police Act** of Saskatchewan, urban municipalities over 500 population are responsible for providing police service. Urban municipalities with populations of less than 500 and rural municipalities are provided with R.C.M.P. services under the terms of a federal provincial agreement, and these municipalities are not required to pay for such services.

Urban municipalities between 500 and 20,000 population have the option to establish their own police force or:

- for communities between 500 and 1,500 population, to contract with the Province for R.C.M.P. service as part of the provincial-federal contract; and
- for communities between 1,500 and 20,000 population, to contract directly with the Federal Government for R.C.M.P. service.

Urban municipalities with 20,000 or more population must establish their own police force.

COST SHARING ARRANGEMENTS

Under the previous federal-provincial contract, which expired on March 31, 1981, all urban municipalities between 500 and 20,000 population paid 56% of the cost for the first 5 R.C.M.P. officers and 81% for each additional R.C.M.P. officer.

Under the new agreement, increased costs to municipalities are being phased-in over a 10 year period as follows:

- for communities between 500 and 15,000 population, the costs per R.C.M.P. officer will increase by 1 percentage point per year from 56% in 1981-82 to 60% in 1985-86 and afterwards by 2 percentage points per year until 1990-91 when it will reach 70%;
- for communities between 15,000 and 20,000 population, the costs per officer will increase by 1 percentage point per year starting with 81% in 1981-82 and reaching 90% in 1990-91.

The estimated municipal costs per R.C.M.P. officer are:

Population	Cost Per Officer (Municipal Share Only)		
	1982-83	1983-84	1984-85
500 - 1,499	$36,300	$38,753	$42,500
1,500 - 14,999	27,360	30,160	32,450
15,000 - 19,999	39,360	43,160	46,200

The cost per officer of the population group 500 - 1,499 includes all associated costs as determined in the provincial-federal contract averaged out by the number of provincial officers. The costs per officer for the population groups 1,500 - 14,999 and 15,000 - 19,999 do not reflect all costs such as overtime, pension costs for non-police staff, etc., which are paid separately.

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APPENDIX III-18

EXAMPLES OF CONTRASTING FISCAL CAPACITIES OF MUNICIPALITIES

Name of Municipality	Population of Municipality	Assessment Per Capita	Mill Rate Required to Meet Standard Expenditure[1]
1. Laverna	37	$1,687	153 mills
Tessier	37	3,004	86
2. Admiral	52	3,650	65
Goodwater	53	1,204	196
3. Benson	90	1,382	155
Tuxford	90	2,370	87
4. Elstow	143	1,127	153
Stenen	143	2,593	78
5. Maymont	212	1,299	150
Wishart	212	2,000	98
6. Lebret	274	1,107	118
Dysart	275	2,054	91
7. Sedley	373	1,721	113
Mankota	375	2,479	77
8. Kyle	516	2,471	90
Osler	527	1,119	218
9. Lafleche	583	2,234	102
Colonsay	594	1,470	140
10. Balgonie	777	1,152	210
Kinistino	783	1,816	146
11. Martensville	1,966	1,288	245
Outlook	1,976	2,306	141
12. Meadow Lake	3,857	2,160	173
Kindersley	3,969	3,031	110

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[1] This is computed by taking the total expenditure recognized in the foundation formula (which is an average of actual expenditures of municipalities in the respective population groupings) and subtracting grants-in-lieu of taxes, trailer licence fees and any potash tax sharing, before the calculation is done.It assumes there are no grants available.

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APPENDIX III-19

URBAN REVENUE SHARING COMPUTATIONAL MILL RATES

1985

Population Category	Average for Most Wealthy Municipalities	Average for Least Wealthy Municipalities
1 - 100	54.5 mills	54.3 mills
101 - 250	56.4	56.3
251 - 500	66.8	63.2
501 - 1,000	68.7	68.7
1,001 - 1,500	76.8	70.9
1,501 - 5,000	105.0	98.1

NOTE: See Table III-4 for the explanatory notes to this appendix, except for note 1), since these averages are weighted averages.

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APPENDIX III-20

IMPACT OF REVENUE SHARING OPTIONS (OPTIONS ENTAILING NO INCREASE IN AGGREGATE GRANTS)

MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

		Mill Rate Required to Meet Standard Expenditure As a Percentage of Computational Mill Rates				
		Option 1	Option 2	Option 3	Option 4	Option 5
Population	Current Arrangements[1]	Basic and Per Capita Considered as Recognized Revenue[2]	Basic and Per Capita Considered as Recognized Revenue; and Increase Computational Mill Rate[3]	Reallocate Foundation to Per Capita[4]	Reallocate Per Capita to Foundation[5]	Reallocate Per Capita to Foundation and Increase Computational Mill Rate[6]
1 - 100 Least Wealthy[7]	121%	136%	109%	118%	90%	50%
Most Wealthy[7]	67	75	75	70	85	87
Difference in % points[8]	54	61	34	48	5	-37[9]
101 - 250 Least Wealthy	131	140	109	117	120	82
Most Wealthy	76	87	87	81	97	99
Difference in % points	55	53	22	36	23	-17[9]
251 - 500 Least Wealthy	102	115	108	108	113	98
Most Wealthy	74	81	81	81	100	103
Difference in % points	28	34	27	27	13	- 5[9]
501 - 1,000 Least Wealthy	147	139	109	259	131	104
Most Wealthy	95	104	107	145	107	106
Difference in % points	52	35	2	114	24	- 2[9]
1,001 - 1,500 Least Wealthy	162	146	109	269	135	106
Most Wealthy	105	109	109	152	110	108
Difference in % points	57	37	0	117	25	- 2[9]
1,501 - 5,000 Least Wealthy	135	127	109	205	122	108
Most Wealthy	90	96	96	115	103	107
Difference in % points	45	31	13	90	19	1
Over 5,000 Least Wealthy	123	117	109	161	113	109
Most Wealthy	95	99	99	114	103	109
Difference in % points	28	18	10	47	10	0
Percentage of Foundation Entitlement Paid	32.14%	60.36%	100.00%	Not Applicable	78.29%	100.00%
Grant Total						
Basic	$ 1.3 million	$ 1.3 million	$ 1.3 million	$ 1.3 million	$ 1.3 million	$ 1.3 million
Per Capita	37.1 million	37.1 million	37.1 million	63.0 million	—	—
Foundation	25.9 million	25.9 million	25.9 million	—	63.0 million	63.0 million
TOTAL	$64.3 million	$64.3 million	$64.3 million	$64.3 million	$64.3 million	$64.3 million

APPENDIX III-20 (continued)
IMPACT OF REVENUE SHARING OPTIONS (OPTIONS ENTAILING NO INCREASE IN AGGREGATE GRANTS)
MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

FOOTNOTES:

[1] The 1985 revenue sharing distribution if the 1985 foundation formula had been used.

[2] This option is the same as the current arrangements, except that in the calculation of the foundation grants, the basic and per capita grants to which the municipality is entitled are considered as recognized revenue.

[3] This option is the same as Option 1, except that the computational mill rates are increased by 9.34% to bring about a payout of 100% of the foundation entitlement of each municipality.

[4] Under this option, foundation grants would be discontinued, and the monies reallocated to the per capita distribution.

[5] Under this option, per capita grants would be discontinued, and the monies reallocated to the foundation portion.

[6] This option is the same as Option 4, except that the computational mill rates are increased by 8.83% to bring about a payout of 100% of the foundation entitlement of each municipality.

[7] These are the mill rates which would be required to meet the standard expenditures, expressed as a percentage of the computational mill rate. The closer these percentages are for the most wealthy and least wealthy municipalities within each population grouping, the greater the amount of equalization.

[8] These are the number of percentage point differences between the most wealthy and least wealthy municipalities. The lower these numbers, the greater the degree of equalization.

[9] The negative numbers under Option 5 mean that the least wealthy municipalities would be able to finance the standard expenditure with a lower mill rate than the most wealthy municipalities. This anomalous situation happens because all municipalities receive full foundation grants to enable them to finance the standard expenditures at the computational mill rate. In addition, however, they also receive a basic grant. Because the basic grant amounts to more in mills to the least wealthy municipalities than the most wealthy municipalities, the former are able to have lower mill rates.

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APPENDIX III-21
IMPACT OF REVENUE SHARING OPTIONS (OPTIONS ENTAILING INCREASE IN AGGREGATE GRANTS)
MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

	Mill Rate Required to Meet Standard Expenditure As a Percentage of Computational Mill Rates				
Population Category	**Current Arrangements[1]**	**Option 6 Basic Retained, Per Capita Eliminated, Full Foundation Entitlement Paid[2]**	**Option 7 No Basic, No Per Capita, Full Foundation Paid[3]**	**Option 8 Basic and Per Capita Retained, Add $17.5 Million to Foundation[4]**	**Option 9 Basic and Per Capita Retained, but Considered As Recognized Revenue[5]**
1 - 100 Least Wealthy[6]	121%	41%	100%	72%	100%
Most Wealthy[6]	67	79	100	61	75
Difference in % Points[7]	54	-38	—	11	25
101 - 250 Least Wealthy	131	73	100	85	100
Most Wealthy	76	89	100	69	87
Difference in % Points	55	-16	—	16	13
251 - 500 Least Wealthy	102	89	100	78	100
Most Wealthy	74	94	100	69	81
Difference in % Points	28	-5	—	9	19
501 - 1,000 Least Wealthy	147	95	100	111	100
Most Wealthy	95	97	100	85	100
Difference in % Points	52	-2	—	26	—
1,001 - 1,500 Least Wealthy	162	98	100	125	100
Most Wealthy	105	99	100	94	100
Difference in % Points	57	-1	—	31	—
1,501 - 5,000 Least Wealthy	135	99	100	112	100
Most Wealthy	90	100	100	87	95
Difference in % Points	45	-1	—	25	5
Over 5,000 Least Wealthy	123	100	100	110	100
Most Wealthy	95	100	100	92	99
Difference in % Points	28	—	—	18	1
Percentage of Foundation Entitlement Paid	32.14%	100.00%	100.00%	53.85%	100.00%
Grant Total					
Basic	$ 1.3 million	$ 1.3 million	—	$ 1.3 million	$ 1.3 million
Per Capita	37.1 million	—	—	37.1 million	37.1 million
Foundation	25.9 million	80.5 million	$80.4 million	43.3 million	42.9 million
TOTAL	$64.3 million	$81.8 million	$80.4 million	$81.7 million	$81.3 million

APPENDIX III-21 (continued)
IMPACT OF REVENUE SHARING OPTIONS
(OPTIONS ENTAILING INCREASE IN AGGREGATE GRANTS)
MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

FOOTNOTES:

[1] The 1985 revenue sharing distribution, if the 1985 foundation formula had been used.

[2] This option would eliminate the per capita grant and payout the full foundation grant. However, because the basic grant is retained, the least wealthy municipalities would be "overcompensated" for their relatively low wealth and would be able to meet their standard expenditures with a lower mill rate than the most wealthy municipalities.

[3] This option would eliminate both the per capita and basic grants and add sufficient monies to enable full foundation grant payouts.

[4] This option would retain the basic and per capita grants and add $17.5 million to the foundation grant to ensure full payout.

[5] This option is the same as option 8, except the basic and per capita grants are considered as recognized revenue in the calculation of the foundation grant.

[6] These are the mill rates required to meet the standard expenditures expressed as a percentage of the computational mill rate. The closer these percentages are for the most wealthy and least wealthy municipalities within each population grouping, the greater the amount of equalization.

[7] These are the percentage point differences between the most wealthy and least wealthy municipalities. The lower these numbers, the greater the degree of equalization.

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APPENDIX III-22
IMPACT OF OPTIONS IN TERMS OF CHANGE IN GRANT

	Population Groupings						
Option	1-100	101-250	251-500	501-1,000	1,001-1,500	1,501-5,000	Over 5,000
				Number of Municipalities			
Option 1							
No Change	18	5	—	—	—	—	—
Decrease	110	133	103	49	10	21	6
Increase	—	—	—	23	18	6	5
Option 2							
No Change	18	5	—	—	—	—	—
Decrease	94	116	100	24	6	20	9
Increase	16	17	3	48	22	7	2
Option 3							
No Change	4	—	—	—	—	—	—
Decrease	52	14	—	32	18	7	5
Increase	72	124	103	40	10	20	6
Option 4							
No Change	4	—	—	—	—	—	—
Decrease	71	123	103	40	10	20	6
Increase	53	15	—	32	18	7	5
Option 5							
No Change	4	—	—	—	—	—	—
Decrease	49	71	96	16	6	20	6
Increase	75	67	7	56	22	7	5
Option 6							
No Change	4	—	—	—	—	—	—
Decrease	32	44	27	6	—	9	1
Increase	92	94	76	66	28	18	10
Option 7							
No Change	—	—	—	—	—	—	—
Decrease	94	93	97	11	—	10	1
Increase	34	45	6	61	28	17	10
Option 8							
No Change	18	2	—	—	—	—	—
Decrease	—	—	—	—	—	—	—
Increase	110	136	103	72	28	27	11
Option 9							
No Change	18	5	—	—	—	—	—
Decrease	76	87	98	10	—	9	1
Increase	34	46	5	62	28	18	10

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APPENDIX III-23

ALLOCATION OF URBAN REVENUE SHARING GRANTS AMONG POPULATION GROUPINGS

Population Grouping	Current (1985) Distribution	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9
Foundation Grants Per Capita[1]										
1 - 100	$ 35.60	$ 16.79	$ 20.92	N/A	$ 86.73	$100.53	$110.78	$110.78	$ 59.65	$ 27.82
101 - 250	29.27	14.04	16.41	N/A	71.29	81.88	91.06	91.06	49.03	23.25
251 - 500	21.68	5.87	4.70	N/A	52.81	56.71	67.45	67.45	36.32	9.72
501 - 1,000	37.58	35.13	46.30	N/A	91.53	105.52	116.91	116.91	62.96	58.19
1,001 - 1,500	42.22	44.87	60.46	N/A	102.84	118.24	131.36	131.36	70.74	74.34
1,501 - 5,000	29.78	24.37	25.43	N/A	77.55	72.94	92.67	92.67	49.90	40.37
Over 5,000	40.79	43.94	41.38	N/A	99.36	95.71	126.91	126.91	68.34	72.80
Foundation Plus Basic Grants Per Capita[2]										
1 - 100	69.55	50.74	54.87	N/A	120.67	134.48	144.72	110.78	93.60	61.77
101 - 250	44.30	29.07	31.44	N/A	86.32	96.91	106.09	91.06	64.06	38.29
251 - 500	29.80	13.99	12.82	N/A	60.93	64.83	75.57	67.45	44.44	17.84
501 - 1,000	41.93	39.48	50.78	N/A	95.88	109.87	121.26	116.91	67.31	62.54
1,001 - 1,500	44.79	47.44	63.03	N/A	105.41	120.81	133.93	131.36	73.30	76.91
1,501 - 5,000	30.93	25.52	26.57	N/A	73.70	74.09	93.81	92.67	51.05	41.52
Over 5,000	40.87	44.02	41.46	N/A	99.43	95.79	126.99	126.91	68.42	72.88

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[1] Calculated by dividing the sum of the foundation grants for each population group by the sum of the populations for the respective population group.

[2] Calculated by dividing the sum of the foundation, plus basic grants for each population group by the sum of the populations for the respective population groups.

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APPENDIX III-24

ANALYSIS OF PER CAPITA EQUALIZED ASSESSMENTS VARIOUS POPULATION GROUPINGS

	Average Assessment Per Capita		
Population Grouping	**All Municipalities In Population Grouping**	**Most Wealthy Municipalities In Population Grouping**	**Least Wealthy Municipalities In Population Grouping**
1 - 100	$ 2,146	$ 3,233	$ 1,374
101 - 250	1,825	2,638	1,124
251 - 500	1,829	2,255	1,416
501 - 1,000	1,878	2,340	1,358
1,001 - 1,500	2,055	2,381	1,500
1,501 - 5,000	2,254	2,706	1,595
5,001 and over	2,744	3,179	2,308

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APPENDIX III-25

OTHER SCHOOL OPERATING GRANT PROGRAMS

In addition to the foundation grant which provides the bulk of provincial financial assistance to school divisions, the Department of Education also provides a number of other operating grant programs. A brief description of these programs is provided below:

Bilingual Projects

- $302,000 budget estimate for 1986;
- federal-provincial agreement to help maintain and develop second language instruction.

Comprehensive High Schools

- $190,000 budget estimate for 1986;
- to provide special financial support for comprehensive high schools which experience a declining enrolment.

Secondments

- $773,000 budget estimate for 1986;
- to reimburse school divisions for teachers who have been seconded to the Department of Education.

Shared Services

- $2,358,000 budget estimate for 1986;
- to assist rural school divisions to provide speech therapy and psychology services on a co-operative or school basis.

Community/Alternative Schools

- $2,511,000 budget estimate for 1986;
- to provide financial assistance to Regina, Saskatoon and Prince Albert school divisions for culturally based alternative education for students of native ancestry.

Flin Flon Boundary Agreement

- $266,000 budget estimate for 1986;
- to reimburse the Province of Manitoba for educational services provided to students residing in Flin Flon (Saskatchewan) who attend school in Flin Flon (Manitoba).

Development Centres

- $455,000 budget estimate for 1986;
- financial assistance for educational services provided to severely and multiply handicapped students.

Private High Schools

- $1,720,000 budget estimate for 1986;
- financial assistance to 7 private high schools which meet the Department of Education's regulations regarding teacher qualifications, curriculum, etc..

College Mathieu and Department of National Defence Schools

- $600,000 budget estimate for 1986;
- to assist these schools in providing educational services which meet the Department of Education's requirements regarding teacher qualifications, curriculum, etc..

Over and above these operating grant programs, the provincial government introduced in 1985-86, a 5 year $275 million Education Development Fund (E.D.F.). The purpose of the program is to provide financial assistance to school divisions to improve the quality of primary and secondary education through the enrichment of existing programs, new computers, programs for gifted students, library facilities, etc.. The program is not intended to add to the base or ongoing costs of school divisions.

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APPENDIX III-26

OVERVIEW OF 1985 COMPONENTS OF FOUNDATION FORMULA

1. RECOGNIZED EXPENDITURES

A. Basic Rates Per Pupil Enrolled

The basic rates are to cover expenditures for administration, instruction, plant operation and maintenance, non-capital furniture and equipment, non-capital renovations and repairs, current interest expenses, bank charges, and special events transportation. The basic rates are expressed in terms of amounts per pupil enrolled. The recognized expenditure is determined by multiplying the numbers of students enrolled by the basic rates. The basic rates are:

	Major Urban Divisions	All Others
Kindergarten	$ 1,165	$ 1,207
Division I & II	2,300	2,337
Division III	2,499	2,543
Division IV	2,837	2,884

B. Recognized Incremental Rates Per Pupil Enrolled

Incremental amounts, over and above the basic rates, are recognized for students enrolled in comprehensive schools and in high cost special education programs. Incremental amounts are also recognized for low cost special education programs on the basis of a standard percentage (3%) of the Divisions I, II, and III enrolment.

The incremental rates are:

Comprehensive High School	$ 242
Low Cost	1,290
High Cost — Level 1	3,791
— Level 2	5,097
— Level 3	5,767

C. Adjustments to the Basic Program

1) Sparsity Factor

The basic program is adjusted upward for rural school divisions by a varying percentage related to the sparsity of the student population as determined by the number of students per square kilometer of territory within the school division. The rationale for this factor is that the per pupil cost of providing educational services increases as the density of student population decreases.

2) Declining Enrolment Adjustments

There is an enrolment decline adjustment to assist school divisions in a transition to lower enrolments.

3) Small School Factor

Additional amounts are recognized for small schools to assist in the higher per pupil operating costs associated with such schools.

D. Transportation and Board and Room Allowance

Recognition is provided for the transportation of urban, rural and special education students.

1) Rural transportation is recognized at $108 per student transported and $124 per daily kilometer of bus route, regardless of the actual expenditure for the service.

2) Urban transportation is recognized where:

   i) There is no school in the local attendance area; or

   ii) A particular program is not available in the local attendance area, and transportation is required to another school where the program is offered; or

   iii) Transportation is required for students to attend school outside their normal attendance area to take advantage of second language programs offered in designated schools.

Actual expenditures up to $346 per pupil per year, or $1.72 per pupil per day, are recognized.

3) Actual expenditures on the transportation of designated special needs students are recognized.

4) Actual board and room allowances are recognized up to $350 per month for high cost special education students and $253 per month for all other students.

E. Second Language Programs

Amounts are recognized for students enrolled in bilingual and French language programs on the basis of full-time equivalents (F.T.E.) and for the implementation of new programs. The higher the proportion of instructional time in French, the greater the amount of recognition. The rates are:

Instructional Time %	Recognized F.T.E. Rates	Implementation Grant Per Pupil
0 - 24	$260	$ 29
25 - 49	323	57
50 - 74 Type B	422	86
80 - 100 Type A	501	115

F. Director of Education

$54,325 is recognized where school divisions employ their own director of education, rather than have a departmentally employed superintendent so as to remove the disincentive that would otherwise exist for divisions to employ their own director.

G. Tuition Fees

Tuition fee expenditures are recognized up to the basic, plus incremental rates.

H. Other Recognized Expenditures

Other recognized expenditures include rental of facilities, recognized substitute teacher costs, shared services, and Department secondments.

2. RECOGNIZED REVENUES

A. Assessment and Grants-In-Lieu of Taxes

The Saskatchewan Assessment Authority provides assessment data. Grants-in-lieu of taxes are converted to a derived assessment, and added to the "regular" assessment. This total assessment is multiplied by the computational mill rate which in 1985 was 95.5 mills.

B. Tuition Fees

Actual tuition fee revenues up to the basic, plus incremental rates are recognized.

C. Capital

Prior to 1985, the retirement of debenture and capital loan debt for approved school facilities, approved replenishment of reserves used in financing approved school facilities, and the debenture downpayments in excess of 4 mills per project, were all recognized in the foundation formula. These amounts are now paid as separate grants from a capital grants budget.

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APPENDIX III-27

SAMPLE FOUNDATION GRANT CALCULATION
(RURAL SCHOOL DIVISION)

RECOGNIZED EXPENDITURES						
Basic Program						
	Enrolment		**Rate Per Pupil**		**Recognized Amount**	
Kindergarten	120	x	$1,207	=	$1,444,804	
Division I & II	629	x	2,337	=	1,469,973	
Division III	285	x	2,543	=	724,755	
Division IV	242	x	2,884	=	697,928	
Total Basic Program						$ 3,037,496
Adjustments						
Enrolment Drop			1.07% of Basic Program		$ 32,501	
Sparsity			6.50% of Basic Program		197,437	
Small Schools Factor					231,030	
Total Adjustments						460,968
Incremental Amounts						
	Enrolment		**Rate Per Pupil**		**Recognized Amount**	
Comprehensive	-	x	$ 242	=	-	
Low Cost Special Education 1	28	x	1,290	=	$ 36,120	
High Cost Special Education 1	40	x	3,791	=	151,640	
High Cost Special Education 2	-	x	5,097	=	-	
High Cost Special Education 3	1	x	5,767	=	5,767	
Total Incremental						193,527
Tuition Expenditure						146,619
Rural Transportation						
749 pupils x $108/pupil					$ 80,892	
5,206 daily miles of route x $124					769,544	
Total						850,436
Special Education Transportation						$ 20,146
Other Transportation						5,602
Locally-Employed Director						54,325
Second Language Recognition						6,259
Other Recognized Expenditures						
Rental of School Facilities					$ 3,868	
Shared Services Program					25,326	
Substitute Teachers					658	
Total						29,852
Total Recognized Expenditure						$ 4,805,230
RECOGNIZED LOCAL REVENUE						
Assessment					$ 23,567,521	
Derived Assessment re Grants-in-Lieu of Taxes					632,479	
Total Assessment					$ 24,200,000	
Assessment x 95.5 mills						$ 2,311,100
Recognized Tuition Revenues						2,337
Other Recognized Revenue						6,580
Total Recognized Local Revenue						$ 2,320,017
GRANT						
Recognized Expenditure (from above)						$ 4,805,230
Less Recognized Local Revenue (from above)						2,320,017
GRANT						$ 2,485,213

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APPENDIX III-28

COMPARISON OF RECOGNIZED AND BUDGETTED EXPENDITURES, 1985

1985 Final Budget Expenditures

Administration		$ 17,992,944
Instruction		
Salaries	$414,257,034	
Other	63,479,228	
TOTAL	$477,736,258	$477,736,258
Plant Operation & Maintenance		78,426,427
Current Interest Expense		4,341,035
Contribution to Capital (portion)		2,000,000
TOTAL		$580,496,664
Pupil Transportation		$ 57,982,447
Tuition Paid		$ 31,781,789
Other Educational Services		$ 1,894,658
Ancillary Services		2,508,844
TOTAL		$ 4,403,502[1]
Net Long-Term Debt Retirement		$ 48,357,441
Provisions for Reserves		4,960,624
Contributions to Capital (portion)		4,908,780
TOTAL		$ 58,226,845
GRAND TOTAL		$732,891,247

1985 Recognized Expenditures

Basic Program		$463,883,631
Adjustments		
Enrolment Drop	$ 4,358,881	
Sparsity	8,093,909	
Small Schools	8,198,382	
TOTAL	$20,651,172	20,651,172
Incremental Per Pupil Amounts (Comprehensive & Special Education)		25,358,312
Local Director of Education		4,053,431
Second Language Recognition		3,222,507
Other Recognized Expenditure		
Special Schools	699,644	
Secondments	646,223	
Shared Services	2,279,639	
Community Schools	2,014,435	
Rentals	896,098	
Other	442,036	
TOTAL	$ 6,978,075	6,978,075
TOTAL		$524,147,110
Pupil Transportation		$ 57,219,075
Tuition Recognition		$ 27,524,432
Capital Debt Retirement		$ 51,090,178
Excess Downpayment Recognition		5,234,556
TOTAL		$ 56,324,734[2]
GRAND TOTAL		$665,215,351

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[1] School Divisions have $4,225,330 in non-grant revenues relating to these items.

[2] This amount is recognized and paid from a capital account apart from the foundation grant formula. In years prior to 1985, capital debt retirement and excess downpayment recognition were components of the foundation formula.

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APPENDIX III-29

SUMMARY OF PUPIL/TEACHER RATIOS AND PUBLIC SCHOOL OPERATING COSTS PER PUPIL FOR CANADIAN PROVINCES FOR YEARS 1978 TO 1982

		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Nova Scotia	Quebec	New Brunswick	Prince Edward Island	Newfoundland
A. Public School	1978	$1,000,106	$ 903,115	$ 357,240	$ 387,199	$ 3,615,450	$ 304,040	$ 2,868,417	$ 241,862	$ 42,436	$ 217,793
Operating Costs	1979	1,087,825	926,293	393,841	430,771	3,902,634	330,366	3,093,385	279,001	49,140	253,433
($'000)	1980	1,205,333	1,030,512	444,329	472,748	4,298,684	365,041	3,505,028	306,624	50,847	272,015
	1981	1,4321,527	1,258,212	503,679	531,535	4,799,988	412,662	(3,878,949)	342,909	57,591	328,788
	1982	1,650,510	1,523,354	(585,401)	(617,945)	(5,411,304)	(468,006)	(3,852,049)	(343,866)	(65,188)	(355,000)
B. FTE Pupils	1977-78	510,419	428,370	203,754	210,376	1,860,027	198,019	1,218,580	161,578	27,276	149,900
	1978-79	500,136	425,547	198,733	204,747	1,819,545	194,070	1,167,400	158,906	26,867	147,267
	1979-80	494,522	423,204	194,752	198,009	1,776,056	189,258	1,122,760	155,744	26,612	144,654
	1980-81	492,054	425,774	191,309	193,706	1,743,150	185,586	1,080,842	152,141	26,348	142,922
	1981-82	485,580	429,394	188,118	190,481	1,712,036	181,674	1,049,540	148,857	25,803	139,855
	1982-83	482,255	434,811	187,620	190,303	1,696,959	179,570	(1,028,304)	147,653	25,373	137,224
C. FTE Teachers	1977-78	28,181	22,829	10,990	12,132	98,533	11,001	72,940	7,743	1,468	7,875
	1978-79	28,086	22,914	11,006	11,995	97,414	11,047	71,866	7,789	1,454	7,949
	1979-80	27,861	23,235	11,150	11,856	95,916	11,057	70,200	7,806	1,438	8,036
	1980-81	28,272	23,723	11,092	11,656	94,766	11,016	67,370	7,829	1,433	7,935
	1981-82	29,075	(24,200)	11,084	11,835	94,508	11,000	63,415	7,803	1,408	8,014
	1982-83	28,369	25,121	11,390	11,945	94,650	10,961	62,341	7,756	1,408	8,034
D. Operating Costs	1978	1,959	2,122	1,753	1,841	1,944	1,535	2,650	1,522	1,579	1,479
Per Pupil (A ÷ B)	1979	2,175	2,189	1,962	2,104	2,145	1,702	3,122	1,791	1,846	1,752
	1980	2,437	2,420	2,282	2,388	2,420	1,929	3,589	2,015	1,930	1,903
	1981	2,909	2,930	2,633	2,744	2,721	2,224	(3,696)	2,304	2,232	2,351
	1982	3,399	3,548	(3,112)	(3,244)	(3,161)	(2,576)	(3,746)	(2,329)	(2,569)	2,587
E. Pupil/Teacher	1977-78	18.11	18.76	18.54	17.34	18.88	18.00	16.71	20.87	18.58	19.03
Ratios (B ÷ C)	1978-79	17.81	18.57	18.06	17.07	18.68	17.57	16.24	20.40	18.48	18.53
	1979-80	17.75	18.21	17.47	16.70	18.52	17.12	15.99	19.95	18.51	18.00
	1980-81	17.40	17.95	17.25	16.62	18.39	16.85	16.04	19.43	18.39	18.01
	1981-82	16.70	17.74	16.97	16.09	18.12	16.52	16.55	19.08	18.32	17.40
	1982-83	17.00	17.31	16.47	15.93	17.93	16.38	16.49	19.03	18.02	17.10

APPENDIX III-29 (continued)

SUMMARY OF PUPIL/TEACHER RATIOS AND PUBLIC SCHOOL OPERATING COSTS PER PUPIL FOR CANADIAN PROVINCES
FOR YEARS 1978 TO 1982

FOOTNOTES:

1. The operating costs for a year for the provinces of Quebec, Prince Edward Island, and Newfoundland are based on the fiscal period commencing July 1 of the year. For New Brunswick, the figures are based on a fiscal period commencing April 1 of the year. The financial year for school boards in the other provinces is the calendar year.
2. Figures in brackets are estimates.
3. Public school operating costs include expenditures for instructional services and supplies, business administration, school building operation and maintenance, public transportation services and other school support services incurred by school boards and/or provincial governments.
4. F.T.E. means "full-time equivalent".
5. School operating cost estimates for Quebec for 1982 are based on a full year operation. Actual expenditure will be less because of school closure for approximately three weeks because of a salary dispute with teachers.

Compiled by Provincial Education Finance Committee of the Council of Ministers of Education of Canada, June, 1983.

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APPENDIX III-30

IMPACT OF INCREASING RECOGNIZED EXPENDITURES ON MOST WEALTHY AND LEAST WEALTHY SCHOOL DIVISIONS[1]

(NO INCREASE IN COMPUTATIONAL MILL RATE)

Division (A)	Theoretical Mill Rate[3] (B)	Current Grant[4] (C)	Grant as % of Budget[5] (D)	Change in Grant[6] (E)	% Change in Grant[7] (F)	Change in Grant in Mill Equivalents[8] (G)	Mills Required to Finance Revised Recognized Expenditure[9]
Most Wealthy Divisions[2]							
Kindersley	142.8	$1,560,693	25.1%	$ 486,380	31.2%	11.2	95.5 mills
Eston/Elrose	154.2	1,542,280	29.9	371,470	24.1	11.4	95.5
Leader	155.6	1,246,544	30.1	281,282	22.6	11.1	95.5
Estevan	156.0	1,724,920	31.0	415,076	24.1	11.7	95.5
Weyburn Central	157.4	1,483,235	33.1	326,736	22.0	11.2	95.5
Gull Lake	161.1	1,056,429	35.4	206,529	19.5	10.7	95.5
Rosetown	165.1	2,141,981	33.7	454,120	21.2	12.2	95.5
Lanigan	167.9	1,792,058	37.1	377,101	21.0	12.6	95.5
Thunder Creek	168.6	2,166,762	39.7	438,341	20.2	12.3	95.5
Oxbow	182.3	1,981,702	41.6	371,875	18.8	13.7	95.5
Average	161.1	1,669,660	33.7	372,891	22.5	11.8	95.5
Least Wealthy Divisions[2]							
Deer Park	327.9	3,091,404	67.5	357,178	11.6	24.1	95.5
Humboldt Rural	331.4	4,796,602	63.4	549,912	11.5	24.3	95.5
Yorkdale	344.9	4,850,261	60.8	639,391	13.2	29.0	95.5
Sturgis	371.4	3,819,750	68.5	404,802	10.6	26.4	95.5
P.A. Rural	384.6	7,116,892	67.6	649,081	9.1	24.2	95.5
Parkland	425.7	4,518,874	64.3	561,876	12.4	36.5	95.5
Hudson Bay	435.2	4,607,271	77.1	501,141	10.9	33.3	95.5
Northern Lakes	452.3	4,274,024	64.6	454,971	10.6	34.3	95.5
Sask. Valley	487.7	9,122,960	72.4	1,147,452	12.6	43.8	95.5
Meadow Lake	495.2	6,577,053	69.6	740,882	11.3	40.5	95.5
Average	405.9	5,277,509	67.6	600,669	11.4	31.6	95.5

APPENDIX III-30 (continued)

IMPACT OF INCREASING RECOGNIZED EXPENDITURES ON MOST WEALTHY AND LEAST WEALTHY SCHOOL DIVISIONS[1]

(NO INCREASE IN COMPUTATIONAL MILL RATE)

FOOTNOTES:

[1] See footnote 3 for an explanation of how the recognized expenditures are increased.

[2] The wealthy school divisions are the 10 rural school divisions with the lowest theoretical mill rates, and the least wealthy school divisions are the 10 divisions with the highest theoretical mill rates, as set out in column (A).

[3] The theoretical mill rate is the mill rate a school division would require to balance its budget if it spent at the expenditure level recognized in the foundation formula and had no provincial grants. The only revenue for the school division would be tuition and "other" revenue recognized in the formula.

The recognized expenditures and revenues used in this calculation are those used in the 1985 foundation formula except:

- — recognized debt retirement and reserve replenishment were added to the amounts;
- — the basic and incremental per pupil rates were increased by 11.5%, so that overall recognized expenditures would be equal to the amounts budgeted by school divisions in 1985.

The assessment used in the calculation is the 1985 equalized assessment used in the 1985 foundation grant calculation. The formula used to calculate the theoretical mill rate is:

$$\text{Theoretical Mill Rate} = \frac{[\,(\text{Recognized Expenditure}) - (\text{Recognized Tuition and Other Revenue})\,]}{\text{Assessment}} \times 1{,}000$$

[4] The 1985 foundation grant, plus the amounts recognized under the capital formula for capital debt retirement and reserve replenishment.

[5] The grant in column (B) as a % of the total expenditure budgeted by the school division for 1985.

[6] The change in the grant if the basic and incremental per pupil rates in the foundation formula were increased by 11.5%, so that aggregate recognized expenditures would equal the aggregate expenditures budgeted by school divisions. The aggregate effect for all school divisions would be to increase grants by approximately $56 million.

[7] Column (D) as a % of column (B).

[8] Column (D) in equivalent mills for the school division. The school division could reduce its mill rate by an equal and opposite amount if it chose to leave its expenditures unchanged.

[9] This is the mill rate which the school divisions would require if they spent at the expenditure level recognized in the foundation formula.

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APPENDIX III-31

IMPACT OF INCREASING RECOGNIZED EXPENDITURES AND RECOGNIZED LOCAL REVENUE
MOST WEALTHY AND LEAST WEALTHY SCHOOL DIVISIONS

	Computational Mill Rate Increased by 19 Mills[1]				Computational Mill Rate Increased by 11 Mills[2]			
Division	Change in Grant[3]	% Change in Grant[4]	Change in Grant in Mill Equivalents[5]	Mills Required to Finance Revised Recognized Expenditure[6]	Change in Grants[3]	% Change in Grant[4]	Changes in Grant in Mill Equivalents[5]	Mills Required to Finance Recognized Expenditure[6]
Most Wealthy Divisions								
Kindersley	-$335,832	-21.5%	-7.8 mills	114.5 mills	$ 10,363	0.7%	0.2mills	106.5 mills
Eston/Elrose	-248,107	-16.1	-7.6	114.5	12,768	0.8	0.4	106.5
Leader	-201,919	-16.2	-7.9	114.5	1,534	0.1	0.1	106.5
Estevan	-256,804	-14.9	-7.3	114.5	26,093	1.5	0.7	106.5
Weyburn Central	-228,431	-15.4	-7.8	114.5	5,323	0.4	0.2	106.5
Gull Lake	-158,999	-15.1	-8.3	114.5	-5,094	-0.5	-0.3	106.5
Rosetown	-254,155	-11.9	-6.8	114.5	44,065	2.1	1.2	106.5
Lanigan	-192,534	-10.7	-6.4	114.5	47,312	2.6	1.6	106.5
Thunder Creek	-238,502	-11.0	-6.7	115.5	46,484	2.1	1.3	106.5
Oxbow	-143,025	-7.2	-5.3	114.5	73,775	3.7	2.7	106.5
Average	-225,831	-14.0	-7.2	114.5	26,262	1.4	0.8	106.5
Least Wealthy Divisions								
Deer Park	75,283	2.4	5.1	114.5	193,975	6.3	13.1	106.5
Humboldt Rural	119,322	2.5	5.3	114.5	300,623	6.3	13.3	106.5
Yorkdale	221,123	4.6	10.0	114.5	397,236	8.2	18.0	106.5
Sturgis	113,847	3.0	7.4	114.5	236,355	6.2	15.4	106.5
Pr. Albert Rural	138,698	1.9	5.2	114.5	353,596	5.0	13.2	106.5
Parkland	269,513	6.0	17.5	114.5	392,614	8.7	25.5	106.5
Hudson Bay	215,407	4.7	14.3	114.5	335,717	7.3	22.3	106.5
Northern Lakes	203,117	4.8	15.3	114.5	309,160	7.2	23.3	106.5
Sask. Valley	649,844	7.1	24.8	114.5	859,363	9.4	32.8	106.5
Meadow Lake	393,033	6.0	21.5	114.5	539,496	8.2	29.5	106.5
Average	239,919	4.3	12.6	114.5	391,814	7.3	20.6	106.5

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[1] This is the increase in computational mill rate required to offset the effects of the increase in recognized expenditures on the aggregate level of grants. The total level of grants would remain unchanged under this option.

[2] This is the increase in computational mill rate which will serve to minimize the overall increase in grants, but which will also minimize the loss in any grants by the most wealthy municipalities. The total increase in grants under this option would be $23.5 million.

[3] Change in grant in relation to the 1985 grant which has been adjusted to include amounts recognized in the capital formula for capital debt retirement and reserve replenishment.

[4] The change in grant expressed in percentage terms.

[5] The change in grant in terms of the equivalent number of mills on the local tax base. School divisions would be able to change their actual mill rates by an equal and opposite number of mills if they decided to leave their expenditure levels unchanged.

[6] This is the mill rate at which the school divisions would require to finance the revised level of expenditure recognized in the foundation formula.

Local Government Finance Commission
September, 1986

APPENDIX IV-1

SUMMARY OF CAPITAL EXPENDITURES 1975 - 1985

($ Millions)

			School Divisions[2]			
Year	**Urban Municipalities**	**Rural Municipalities[1]**	**New School and Major Renovations**	**Other**	**Total**	**Total**
1975	$ 61.2	$ 6.8	$18.2	$2.3	$20.5	$ 88.5
1976	90.4	7.1	25.2	2.5	27.7	125.2
1977	85.3	9.7	32.0	3.3	35.3	130.3
1978	94.9	11.8	27.0	3.6	30.6	137.3
1979	127.2	13.5	34.7	5.1	39.8	180.5
1980	141.0	13.0	27.0	5.5	32.5	186.5
1981	153.0	16.4	39.4	5.0	44.4	213.8
1982	173.8	16.3	46.1	5.5	51.6	241.7
1983	136.8	16.0	66.8	6.0	72.8	225.6
1984	148.9	18.0	63.1	6.7	69.8	236.7
1985 est.[3]	134.5	16.9	50.5	7.0	57.5	208.9
Compound Average Annual Increase	8.2%	9.5%			10.9%	9.0%

NOTES:

[1] Expenditures by Local Improvement Districts are included for the years in which they existed.

[2] Excludes data for school divisions formerly under the jurisdiction of the Department of Northern Saskatchewan.

[3] Commission estimates.

SOURCES: Annual financial statements of municipalities and school divisions from the Departments of Urban Affairs, Rural Development and Education.

Local Government Finance Commission
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APPENDIX IV-2
URBAN MUNICIPAL CAPITAL EXPENDITURES[1]
($ Thousands)

Year	Regina	Saskatoon	Other Cities	Total Cities	Towns	Villages	All Urban Total	Percentage Change
1971	$ 2,522	$ 7,149	$ 4,977	$ 14,648	$ 4,212	$ 1,015	$ 19,875	—
1972	3,820	4,999	5,380	14,199	5,720	1,763	21,682	9.1%
1973	5,821	4,284	6,101	16,206	5,565	1,329	23,100	6.5
1974	10,714	6,314	7,594	24,622	9,615	3,158	37,395	61.9
1975	18,675	12,535	12,177	43,387	13,569	4,254	61,210	63.7
1976	24,210	18,528	22,038	64,776	20,180	5,483	90,439	47.8
1977	16,786	16,065	25,909	58,760	21,139	5,450	85,349	(5.6)
1978	22,161	20,751	19,525	62,437	26,694	5,792	94,923	11.2
1979	33,677	31,306	24,317	89,299	31,342	6,568	127,209	34.0
1980	28,973	33,573	34,464	97,010	35,210	8,759	140,979	10.8
1981	22,271	33,531	44,781	100,583	42,691	9,730	153,004	8.5
1982	29,984	29,684	64,224	123,892	40,901	9,006	173,799	11.8
1983	27,709	27,972	38,232	93,912	32,963	9,962	136,837	(21.3)
1984	23,225	51,189	31,242	105,656	33,246	9,959	148,861	8.8
1985[2]	28,477	33,650	25,919	88,046	36,000	10,500	134,546	(9.6)
Compound Average Annual Change	18.9%	11.7%	12.5%	13.7%	16.6%	18.2%	14.6%	

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[1] Capital expenditures include general, sewer and water, light and power, and transit capital expenditures.

[2] 1985 expenditures by towns, villages, and other cities are Commission estimates. 1985 expenditures for Regina and Saskatoon are preliminary, unaudited data.

SOURCE:
Data obtained from the source and application of capital financing statements of annual municipal financial statements, Department of Municipal Affairs annual reports, Department of Urban Affairs.

Local Government Finance Commission
September, 1986

APPENDIX IV-3

ANALYSIS OF DISTRIBUTION OF CAPITAL EXPENDITURES AMONG TYPES OF URBAN MUNICIPALITIES

	Regina	Saskatoon	Other Cities	Total Cities	Towns	Villages	All Urban Municipalities
1) Average Annual Capital Expenditures 1977 to 1985	$25,918,111	$30,857,889	$34,290,333	$91,066,111	$33,354,000	$8,414,000	$132,834,111
2) Average Annual Capital Expenditures Per Capita 1977 to 1985	$ 159.01	$ 200.10	$ 222.28	$ 193.16	$ 212.72	$ 133.36	$ 192.14
3) 1981 Census Pop.	162,984	154,210	154,267	471,461	156,794	63,093	691,348
4) % of Urban Population 1981	23.6%	22.3%	22.3%	68.2%	22.7%	9.1%	100.0%
5) % of Average Annual Capital Expenditure 1977 to 1985	19.5%	23.2%	25.8%	68.6%	25.1%	6.3%	100.0%

NOTES:

Item 1) - This is the average of the annual capital expenditures over the 9 year period 1977 to 1985, inclusive from Appendix IV-2. This time period includes 4 years before and after the 1981 census. This number of years was thought to be large enough to minimize the distortions caused by the uneven nature of capital expenditures and small enough to minimize the distortions caused by a lack of annual census population data.

Item 2) - This is Item 1) divided by the 1981 census population.

Item 3) - Since Lloydminster's capital expenditures are for the whole city, the Alberta portion (8,997) of the City's population has been included.

Items 4) & 5) - Self-explanatory.

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APPENDIX IV-4
URBAN MUNICIPAL CAPITAL EXPENDITURES BY FUNCTIONAL CLASSIFICATION

Year	General Government	Protective	Transportation	Environmental Health	Public Health and Welfare	Environmental Development	Recreation and Culture	Utility	Total
1971	$ 411,565	$5,472,018	$ 1,918,219	$5,578,211	$350,735	$ 253,536	$ 2,338,144	$ 3,552,363	$ 19,874,791
1972	1,314,553	698,402	7,559,013	2,033,462	247,741	505,368	4,184,821	5,138,095	21,681,455
1973	514,340	507,101	11,307,732	2,044,552	139,335	405,194	3,393,129	4,788,313	23,099,696
1974	559,723	1,154,161	15,639,434	4,788,337	417,304	1,221,868	5,833,424	7,781,397	37,395,648
1975	4,176,587	1,355,157	27,228,294	4,164,873	311,362	1,851,946	8,844,817	13,278,133	61,211,169
1976	8,814,909	3,850,936	32,590,641	377,371	304,827	3,806,498	10,156,931	30,536,666	90,438,779
1977	3,149,456	5,260,840	33,411,192	210,002	838,126	3,921,787	14,667,791	23,889,658	85,348,852
1978	1,167,390	6,710,645	32,489,472	1,014,174	148,780	3,580,519	22,040,015	27,772,542	94,923,537
1979	1,756,388	5,263,577	44,401,218	4,929,740	208,323	6,817,500	23,073,542	40,758,710	127,208,898
1980	7,209,624	5,452,708	48,817,472	4,384,997	669,343	12,843,613	17,313,400	44,287,689	140,978,846
1981	9,023,988	6,686,968	56,587,784	5,026,167	744,250	5,936,794	21,465,107	47,532,918	153,003,976
1982	10,307,902	5,076,962	57,143,099	4,591,158	274,895	4,799,601	19,488,178	72,117,659	173,799,454
1983	11,844,714	3,491,190	51,013,146	2,717,350	118,712	4,707,020	17,786,689	45,158,459	136,837,280
% of Total Average 1971 to 1983	5.2%	4.3%	36.0%	3.6%	0.4%	4.3%	14.6%	31.4%	100.0%

SOURCES: Department of Municipal Affairs Annual Reports.
Department of Urban Affairs Financial Information System

Local Government Finance Commission
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APPENDIX IV-5

SOURCES OF FINANCING URBAN MUNICIPAL CAPITAL EXPENDITURES

Year	Current Revenue Contribution[1]	Long-Term Capital Debt[2]	Capital Grants[3]	Other[4]	Total[5]
1971	$ 3,098,172	$11,849,574	$ 1,609,381	$ 3,317,664	$ 19,874,791
1972	4,343,485	7,053,253	4,536,086	5,748,631	21,681,455
1973	4,836,156	6,450,765	4,008,248	7,804,527	23,099,696
1974	9,283,156	3,206,691	7,165,723	17,740,078	37,395,648
1975	12,157,463	22,944,739	11,649,412	14,459,555	61,211,169
1976	12,779,539	23,114,625	18,338,578	36,206,037	90,438,779
1977	15,209,260	25,797,471	18,833,907	25,508,214	85,348,852
1978	19,545,041	27,619,808	19,584,676	28,174,012	94,923,537
1979	23,629,109	28,830,386	30,046,872	44,702,531	127,208,898
1980	30,140,499	14,602,256	31,871,593	64,364,498	140,978,846
1981	33,082,129	22,840,495	63,147,926	33,933,426	153,003,976
1982	32,606,334	53,043,106	63,179,475	24,970,539	173,799,454
1983	26,825,881	20,554,240	50,437,991	39,019,168	136,837,280
1984	31,236,639	21,565,058	41,920,834	54,138,469	148,861,000

FOOTNOTES:

[1] 1971 to 1975 current revenue contribution includes all operating fund transfers to the capital fund (including transfers for debenture and other long-term debt). Starting in 1976, the current revenue contribution includes only transfers for capital expenditures.

[2] Includes debenture debt, withdrawals from capital trust funds, loans not payable within the year, and advances from other funds.

[3] Includes grants from the federal government and federal agencies, the provincial government and its agencies, and local governments.

[4] The amount of other sources of financing is calculated as the residual after deducting the current revenue contribution, long-term debt and capital grants from total capital expenditures. "Other" includes funds available from previous years, prepaid frontage taxes, proceeds from the sale of property and the disposal of capital assets, contributions/donations, interest earnings of the capital fund and miscellaneous sources.

[5] Total sources of financing equals the total capital expenditures in a particular year.

SOURCE: Summaries of urban municipal financial statements compiled by the former Department of Municipal Affairs and the Department of Urban Development.

Local Government Finance Commission
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APPENDIX IV-6

PERCENTAGE DISTRIBUTION OF SOURCES OF FINANCING URBAN MUNICIPAL CAPITAL EXPENDITURES

Year	Current Revenue Contribution	Long-Term Capital Debt	Capital Grants	Other	Total
1971	15.59%	59.62%	8.10%	16.69%	100.00%
1972	20.03	32.53	20.92	26.51	100.00
1973	20.94	27.93	17.35	33.79	100.00
1974	24.82	8.58	19.16	47.44	100.00
1975	19.86	37.48	19.03	23.62	100.00
1976	14.13	25.56	20.28	40.03	100.00
1977	17.82	30.23	22.07	29.89	100.00
1978	20.64	29.17	20.68	29.50	100.00
1979	18.58	22.66	23.62	35.14	100.00
1980	21.38	10.36	22.61	45.66	100.00
1981	21.62	14.93	41.27	22.18	100.00
1982	18.76	30.52	36.35	14.36	100.00
1983	19.60	15.02	36.86	28.51	100.00
1984	20.98	14.49	28.16	36.37	100.00
Average 1971-74	21.1%	28.0%	17.0%	33.9%	100.0%
Average 1975-79	18.2%	28.0%	21.4%	32.5%	100.0%
Average 1980-84	20.4%	17.6%	33.3%	28.7%	100.0%
Average 1971-84	19.7%	22.0%	27.9%	30.4%	100.0%

SOURCE: Data from Appendix IV-5.

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APPENDIX IV-7

UNMATURED LOCAL GOVERNMENT DEBENTURE AND CAPITAL LOANS AS OF DECEMBER 31, 1984

Province	$ Million	$ Per Capita
British Columbia	$ 4,224.2	$ 1,474
Alberta[1]	5,222.6	2,231
Saskatchewan	399.5	396
Manitoba	855.7	808
Ontario[2]	N/A	N/A
Quebec[3]	7,256.8	1,109
New Brunswick	321.7	450
Nova Scotia	408.9	469
Prince Edward Island	46.9	373
Newfoundland	325.4	562

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[1] This is net of $1.03 billion of debt written off in 1979 under the Municipal Debt Reduction Program.

[2] Data are not yet available for Ontario.

[3] Data for Quebec excludes debt of school divisions.

SOURCE: Statistics Canada

Local Government Finance Commission
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APPENDIX IV-8

DEBENTURE DEBT CHARGES PER CAPITA BY PROVINCE 1982 ESTIMATES

Province	General[1]	Education[2]	Total	Total Including Government Enterprise[3]
Newfoundland	$ 40.12	—	$ 40.12	$ 40.12
Pr. Edward Is.	17.44	$29.89	47.33	48.10
Nova Scotia	50.61	35.68	86.29	86.71
New Brunswick	57.29	—	57.29	58.87
Quebec	149.11	36.41	185.52	186.38
Ontario	58.07	23.96	82.03	86.90
Manitoba	76.04	31.75	107.80	116.20
Saskatchewan	35.03	19.51	54.54	55.50
Alberta	129.49	42.63	172.05	218.74
Br. Columbia	97.14	49.48	146.62	146.66
Canada (incl. Yukon & N.W.T.)	92.12	31.17	123.29	130.11

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[1] "General" includes urban, rural and regional municipalities where applicable.

[2] "Education" includes school boards responsible for primary and secondary education.

[3] "Government Enterprise" includes certain semi-autonomous special purpose boards or commissions established for municipal purposes.

SOURCE: Statistics Canada, publication 68-203.

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September, 1986

APPENDIX IV-9

DEBENTURE DEBT OUTSTANDING
SASKATCHEWAN LOCAL AUTHORITIES
AS AT DECEMBER 31
($ Thousands)

Year	Cities[1]	Towns[1]	Villages	Total Urban	R.M.	Municipal Total	School Divisions[2]	Hospital Boards[3]	Telephone Companies	Grand Total
1973	$ 90,158	$29,027	$8,710	$127,895	$260	$128,155	$ 67,993	$10,825	$784	$207,752
1974	83,622	26,641	7,672	117,935	226	118,161	64,183	9,949	617	192,910
1975	90,189	24,322	6,594	121,105	172	121,277	66,345	9,631	480	197,733
1976	91,955	22,355	5,471	119,781	138	119,919	82,683	9,637	319	212,558
1977	91,217	20,981	4,109	116,307	119	116,426	101,010	9,599	38	227,033
1978	103,310	20,718	3,694	127,722	99	127,821	103,540	9,467	2	240,830
1979	102,287	22,061	2,908	127,256	131	127,387	102,565	9,678	0	239,630
1980	109,671	23,321	2,508	135,500	260	135,760	108,052	8,111	0	251,923
1981	112,101	21,577	3,096	136,774	233	137,007	116,764	7,092	0	260,863
1982	144,741	23,274	2,701	170,716	206	170,922	131,642	6,005	0	308,569
1983	147,706	22,886	1,932	172,524	176	172,700	169,494	4,898	0	347,092
1984	147,622	21,141	1,686	170,449	144	170,593	185,914	4,049	0	360,566
Compound Annual Rate of Change 1973-84				2.6%		2.6%	9.6%	(8.6%)		5.1%

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[1] Excludes net secondary school debt.

[2] Includes net secondary school debt.

[3] Excludes municipal hospital debt for Regina and Saskatoon. In these cases, the net hospital debt is included in the City municipal debt figure. (Hospital debt shown as at March 31, 1984.)

SOURCE: Annual Report, Local Government Board

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APPENDIX IV-10

URBAN MUNICIPAL DEBENTURE ISSUES AS % OF CAPITAL EXPENDITURES

Year	Capital Expenditures	Debenture Issues[1]	Debenture Issues as % of Expenditures
1971	$ 19.9 millions	$ 10.1 millions	50.8%
1972	21.7	6.9	31.8
1973	23.1	5.0	21.6
1974	37.4	3.3	8.8
1975	61.2	14.5	23.7
1976	90.4	21.2	23.5
1977	85.3	19.9	23.3
1978	94.9	22.7	23.9
1979	127.2	16.7	13.1
1980	141.0	21.2	15.0
1981	153.0	12.7	8.3
1982	173.8	30.0	17.3
1983	136.8	15.6	11.4
1984	148.9	7.0	4.7
1985	134.5 est.	17.6	13.1
Average 1971-75	$ 32.7	$ 8.0	24.4%
Average 1976-80	$107.8	$20.3	18.9%
Average 1981-85	$149.4	$16.6	11.1%

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[1] The issues are shown for the year they were issued, which does not necessarily coincide exactly with year in which the relevant capital expenditures are made. For this reason, interpretations should be made from an examination of data for several years, rather than a single year.

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APPENDIX IV-11
URBAN MUNICIPAL DEBENTURE DEBT OUTSTANDING IN CURRENT AND CONSTANT DOLLARS
($ Thousands)

Year	Debenture Debt Outstanding In Current Dollars	Consumer Price Index[1]	Debenture Debt Outstanding In Constant Dollars
1971	$134,598	42.7	$315,218
1972	137,608	44.6	308,538
1973	127,895	47.6	268,687
1974	117,935	52.1	226,363
1975	121,105	57.6	210,252
1976	119,781	62.7	191,038
1977	116,307	68.8	169,051
1978	127,722	75.0	170,296
1979	127,256	81.3	156,526
1980	135,500	89.5	151,397
1981	136,774	100.0	136,774
1982	170,716	109.0	156,620
1983	172,524	116.0	148,728
1984	170,499	121.1	140,751

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[1] Regina Consumer Price Index, 1981 = 100.

SOURCE: Local Government Board
Saskatchewan Bureau of Statistics

Local Government Finance Commission
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APPENDIX IV-12
URBAN MUNICIPAL DEBENTURE DEBT AS % OF OPERATING REVENUES

Year	Operating Revenues	Debenture Debt Outstanding	Debenture Debt Outstanding as % of Operating Revenues
1971	$ 79,665,969	$134,598,000	169.0%
1972	89,925,231	137,608,000	152.0
1973	95,290,032	127,895,000	134.2
1974	114,530,890	117,935,000	103.0
1975	138,131,817	121,105,000	87.7
1976	167,310,220	119,781,000	71.6
1977	194,062,130	116,307,000	59.9
1978	224,132,826	127,722,000	57.0
1979	264,399,389	127,256,000	48.1
1980	289,395,223	135,500,000	46.8
1981	326,097,202	136,774,000	41.9
1982	364,111,213	170,716,000	46.9
1983	383,123,609	172,524,000	45.0
1984	414,008,056	170,449,000	41.2

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APPENDIX IV-13

PERCENTAGE DISTRIBUTION OF DEBENTURES OUTSTANDING AS AT DECEMBER 31

Year	Urban Municipal	Rural Municipal	Total Municipal	School	Hospital	Telephones
1973	61.6%	0.1%	61.7%	32.7%	5.2%	0.3%
1974	61.1	0.1	61.2	33.3	5.2	0.3
1975	61.2	0.1	61.3	33.6	4.9	0.2
1976	56.4	0.1	56.4	38.9	4.5	0.2
1977	51.2	0.1	51.3	44.5	4.2	*
1978	53.0	*	53.1	43.0	3.9	*
1979	53.1	0.1	53.2	42.8	4.0	0
1980	53.8	0.1	53.9	42.9	3.2	0
1981	52.4	0.1	52.5	44.8	2.7	0
1982	55.3	0.1	55.4	42.7	1.9	0
1983	49.7	0.1	49.8	48.9	1.4	0
1984	47.3	*	47.3	51.6	1.1	0

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*Negligible.

SOURCE: Computed from Annual Reports of The Local Government Board.

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APPENDIX IV-14
DEBENTURES ISSUED 1975 - 1985 BY LOCAL AUTHORITIES IN SASKATCHEWAN
($ Thousands)

Year	Cities	Towns	Villages	Total Urban	School Divisions	Hospitals	Others	Total
1975	$13,911	$ 611	$ 11	$14,533	$ 7,738	$ 316	$ 14	$22,602
1976	20,368	776	38	21,182	6,590	1,003	8	32,993
1977	15,156	4,711	51	19,918	11,366	360	9	31,653
1978	20,677	1,955	77	22,709	10,202	1,066	40	34,017
1979	12,906	3,700	134	16,740	9,320	295	21	26,376
1980	15,228	5,488	448	21,164	13,515	855	234	35,768
1981	9,364	3,163	216	12,743	18,200	—	54	30,997
1982	25,987	3,619	348	29,954	26,168	—	—	56,122
1983	11,730	3,478	378	15,586	49,483	—	—	65,069
1984	4,050	2,832	133	7,015	37,181	—	—	44,196
1985	14,085	3,274	262	17,621	22,586	—	—	40,207
Average 1975 - 1979	16,604	2,351	62	19,016	9,043	608	18	29,528
Average 1980 - 1984	13,272	3,716	305	17,292	28,909	171	58	46,430

SOURCE: Local Government Board Annual Report

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APPENDIX IV-15
PROVINCIAL CAPITAL GRANTS TO URBAN MUNICIPALITIES

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	Preliminary 1985-86
Community Capital Fund[1]	$11,298,920	$13,020,105	$7,263,955	$8,037,910	$ 5,776,662	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Community Capital Fund Program[1]	0	0	0	0	0	11,599,256	16,065,021	16,495,850	11,921,184	11,344,867	1,680,743
Munici. Water Ass't.[1]	941,989	850,000	2,132,729	1,999,310	2,500,000	1,872,019	3,301,446	5,200,000	4,800,000	5,037,200	3,575,000
Industrial Towns	34,948	104,078	325,363	185,081	150,000	251,030	35,000	53,495	235,000	30,000	25,000
Pollution Control Ass't.	74,199	105,048	52,725	56,273	500,000	1,215,000	1,107,307	921,534	358,948	553,200	130,000
Hwys. - Urban Ass't.[1]	6,001,672	8,189,987	7,111,370	7,049,248	11,037,884	13,096,763	16,819,660	17,903,049	19,322,906	8,427,268	4,988,344
Lloydminster Spec. Grt.	0	0	0	0	0	0	1,452,000	4,650,000	3,048,000	0	0
Neighbourhood Improv. Grant	0	279,758	1,267,466	1,689,569	1,607,511	610,609	333,841	375,261	171,602	0	0
Cult. & Rec. - Rec. & Cult. Facilities[1]	0	0	4,386,150	6,408,597	5,269,820	3,691,360	5,726,793	0	3,116,507	5,806,639	4,594,942
Bus. Imp. Districts	0	0	0	33,522	393,111	302,880	177,414	232,344	0	0	0
DREE - Water Supply & Drought Proofing	0	0	0	0	0	481,162	237,308	1,859,112	659,740	0	0
Drought Assistance	0	0	375,796	340,166	0	267,892	1,690,195	1,352,267	0	0	0
Municipal Transit & Disabled Transit	0	0	0	0	0	0	1,472,997	1,920,728	1,475,040	1,154,255	570,390
Municipal Airports	0	0	0	0	214,589	1,350,000	741,585	468,819	349,077	401,165	407,624
Qu'Appelle Waste Treatment	942,555	0	0	60,887	49,163	29,308	787,786	1,631,922	598,512	0	0
Community Development	0	0	0	0	0	87,258	176,000	8,000	0	0	0

APPENDIX IV-15 (continued)

PROVINCIAL CAPITAL GRANTS TO URBAN MUNICIPALITIES

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	Preliminary 1985-86
Local Initiatives	$ 2,887,467	$ 3,126,199	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Downtown Develop.	0	0	0	0	0	0	723,590	1,039,049	1,039,049	1,039,049	971,654
Rail Relocation	0	0	0	0	0	0	0	883,359	296,655	481,214	445,572
Carbon Filtration Plant (Regina & Moose Jaw)	0	0	0	0	0	0	0	0	0	1,655,381	2,844,619
Prov. Capital Fund	0	0	0	0	0	0	0	0	0	0	12,462,322
Meadow Lake Special Grant	0	0	0	0	0	0	0	0	500,000	750,000	560,000
TOTAL	$22,181,750	$25,675,175	$22,915,554	$25,860,563	$27,498,740	$34,854,537	$50,847,943	$54,995,240	$47,892,220	$36,680,230	$33,256,210

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[1] Includes some small amounts paid to rural municipalities. Municipal Water Assistance and Pollution Control Assistance Grants for 1984-85 and 1985-86 are for the calendar years 1984 and 1985, respectively, since the Saskatchewan Water Corporation now operates on a calendar year basis.

SOURCES: Public Accounts; Estimates; Qu'Appelle Implementation Board; Saskatchewan Water Corporation; and Department of Urban Affairs.

Local Government Finance Commission
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APPENDIX IV-16

ANALYSIS OF PROVINCIAL CAPITAL GRANTS AND URBAN CAPITAL EXPENDITURES

Year	Capital Expenditures	Provincial Grants[1]	Provincial Grants as % of Capital Expenditures
	($ Millions)	($ Millions)	
1971	$ 19.9	$ 1.7	8.5%
1972	21.7	7.2	33.2
1973	23.1	8.3	35.9
1974	37.4	11.8	31.6
1975	61.2	22.2	36.3
1976	90.4	25.7	28.4
1977	85.3	22.9	26.8
1978	94.9	25.9	27.3
1979	127.2	27.5	21.6
1980	141.0	34.9	24.8
1981	153.0	50.8	33.2
1982	173.8	55.0	31.6
1983	136.8	47.9	35.0
1984	148.9	36.7	24.6
1985 est.	134.5	33.3	24.8
Average 1971-75	$ 32.7	$10.2	31.4%
Average 1976-80	$107.9	$27.4	25.4%
Average 1981-85	$149.4	$44.7	29.9%

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[1] Provincial Grants are for the April - March fiscal year, while urban capital expenditures are for the January - December fiscal year. The timing of grants for cost-shared projects may not coincide with the year in which the costs were incurred.For these reasons, interpretations should be made on the basis of an examination of data for several years, rather than for any one year.

SOURCES: Public Accounts for the years 1971 to 1984. Various provincial government departments and Saskatchewan Water Corporation for 1985.

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APPENDIX IV-17

DESCRIPTION OF PROVINCIAL GRANT PROGRAMS TO URBAN MUNICIPALITIES

PROVINCIAL CULTURAL/RECREATIONAL FACILITIES PROGRAM

The purpose of this program is to encourage communities and voluntary organizations to develop recreation and cultural facilities and to upgrade existing facilities. All urban and rural municipalities (including organized hamlets) are eligible for grants. This program is administered by Saskatchewan Culture and Recreation.

This 5 year program (1983 to 1988) has a total allocation of $32 million. Assistance is provided conditionally on the basis of a base grant of $5,000, plus $25 per capita (1981 census), plus a bonus grant of $5 per capita where at least two municipalities undertake a joint project. The maximum grant under this program cannot exceed 50% of total eligible costs of approved projects.

This is the second of such programs with the first 5 year program (1977 to 1982) providing grants totalling $25.5million.

AIRPORT ASSISTANCE

The purpose of this program administered by Saskatchewan Highways and Transportation is to provide financial assistance for the development, maintenance and operation of good quality, municipally owned airports. All municipalities with populations in excess of 300 and located further than 10 miles from an adequate airstrip are eligible for assistance.

Financial assistance for the development and maintenance of the airport is based on a formula which provides varying levels of assistance according to a classification of the municipality:

Classification	**Development**		**Maintenance**	
	Prov. Share	**Maximum**	**Prov. Share**	**Maximum/ Year**
Primary	65%	$75,000	100%	$3,700
Secondary	50%	$45,000	100%	$2,200
Local	100%	$ 4,000	—	

URBAN ASSISTANCE POLICY

Saskatchewan Highways and Transportation administers this program which is intended to assist urban municipalities in providing modern and efficient highway systems.

The components of the assistance are:

- Provincial Highway Routes - 50% of construction costs for centres over 15,000 population, others 75%;
- Arterial Construction - discontinued; effective April 1, 1985 funding transferred to the Provincial Capital Fund (previously 50% sharing);
- Bridges - formula which considers length of the structure and the population of the centre;
- Studies - 75% of costs of comprehensive studies and 50% of other approved studies;
- Interchanges - formula which considers the degree of responsibility for each intersecting portion. For example, if a highway (50% shared) connects with an urban street (0% shared), then an interchange would be shared at 25% [(50% + 0%) x .5].

INDUSTRIAL TOWNS ASSISTANCE

Urban Affairs administers this program which provides assistance to designated urban municipalities to help deal with the impacts resulting from major industrial development within or adjacent to the municipality. Towns and villages may receive grant or loan assistance relating to projects considered necessary to overcome the impacts.

Before any assistance will be considered, a municipality must first apply for and gain "industrial town" status. Once a community has gained industrial town status, the nature and amount of financial assistance is determined on a case-by-case basis.

PROVINCIAL CAPITAL FUND (P.C.F)

The purpose of this program is to provide unconditional provincial financial assistance to municipalities toward the capital cost of acquisition or construction of capital works or the purchase of equipment, and to encourage long-term capital works planning. Cities, towns, villages, and R.M.s on behalf of organized and unorganized hamlets within their boundaries are eligible for grant assistance under this program administered by Urban Affairs.

P.C.F. will provide approximately $34.6 million over 2 years.Municipalities may receive $25 per capita per year, based on the 1981 federal census, toward capital costs incurred between January 1, 1985 and December 31, 1986. Communities with a population greater than 10,000 may only receive a maximum grant of $25 per capita in any year, while smaller municipalities may receive the total grant in either of the 2 years. The grant on any project is up to 60% of the project cost. One of the program's requirements is that a municipality must submit a 5 year capital works plan.

P.C.F. started in 1985-86 and replaced the Community Capital Fund (C.C.F.) programs. The first C.C.F. program ran from 1975 to 1980 with total grants of $45.4 million and the second C.C.F. program ran from 1980 to 1985 with total grants of $69.2 million.

TRANSIT FOR THE DISABLED

This program provides financial assistance to cities and towns for transportation of disabled persons. Funding is available for purchasing transit vehicles, transit construction projects, and demonstration projects and studies. Urban Affairs administers the program.

The program makes grants based on:

- 75% grant for construction, vehicles and related expenses; and
- 75% on eligible costs for demonstration projects and studies.

AGRICULTURAL COMMUNITY WATER INFRASTRUCTURE AGREEMENT

Saskatchewan Water Corporation administers this program which provides assistance for water and sewage projects in 42 selected towns and cities which are major agricultural trading centres. The grant is based on 50% of the costs of constructing waterworks or sewerage expansion necessary to broaden the service capability of the selected communities.

APPENDIX IV-17 (continued)

DESCRIPTION OF PROVINCIAL GRANT PROGRAMS TO URBAN MUNICIPALITIES

FLOOD CONTROL FOR URBAN CENTRES

The purpose of this Saskatchewan Water Corporation program is to assist municipalities to alleviate flooding. All urban municipalities and rural municipalities, on behalf of hamlets, are eligible for this program. Saskatchewan Water Corporation may provide engineering/technical assistance or financial assistance for construction projects. The financial assistance is based on a formula which provides a minimum assistance for all projects of 50%. This basic assistance can be increased by an amount determined by the population of the community and the size of the drainage area outside of the community. In addition to this development grant, Saskatchewan Water Corporation will also provide up to 66 2/3% of the cost of maintenance work.

WATER ASSISTANCE GRANTS

Towns, villages, and rural municipalities, on behalf of hamlets, are eligible for assistance from the Saskatchewan Water Corporation in the amount of 50% of the capital costs of water and sewage systems. In addition, capital costs related to water supply systems, water treatment or storage facilities, sewage treatment facilities, and sewage effluent disposal systems are eligible for grant assistance under this program.

WATER POLLUTION CONTROL GRANTS TO CITIES

The objective of this Saskatchewan Water Corporation program is to control the pollution of provincial waters by assisting cities in financing the capital cost of constructing water pollution control works. Grants equal to 10% of the capital cost of primary and secondary sewage treatment projects are available.

SPECIAL GRANTS

At times, individual urban municipalities require special consideration due to the magnitude of the capital project. The Department of Urban Affairs has, in a number of cases, approved special grants to urban municipalities and, in 1985-86, there are 4 active special grants: Meadow Lake Special Grant, Carbon Filtration Plant (Regina and Saskatoon), Rail Relocation (Regina) and Downtown Development (debt repayment - Prince Albert).

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APPENDIX IV-18

PROVINCIAL CAPITAL GRANTS TO URBAN MUNICIPALITIES

Year	Total Capital Grants[1]	Unconditional Grants[2]	Unconditional Grants as % of Total
1975-76	$22,181,750	$11,298,920	50.9%
1976-77	25,675,175	13,020,105	50.7
1977-78	22,915,554	7,263,955	31.7
1978-79	25,860,563	8,037,910	31.1
1979-80	27,498,740	5,776,662	21.0
1980-81	34,854,537	11,599,256	33.3
1981-82	50,847,943	16,065,021	31.6
1982-83	54,995,240	16,495,850	30.0
1983-84	47,892,220	11,921,184	24.9
1984-85	36,680,230	11,334,867	30.9
1985-86	33,256,210	14,143,065	42.5

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[1] From Appendix IV-15.

[2] From Appendix IV-15. Data include the Community Capital Fund for 1975-76 and 1979-80 inclusive, the Community Capital Fund Program for 1980-81 to 1984-85 inclusive, and the Provincial Capital Fund for 1985-86. For 1985-86, the figures include $1,680,743 of monies carried over from the Community Capital Fund Program. These 3 programs are the only ones which are considered to be unconditional.

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APPENDIX IV-19

PROJECTED URBAN CAPITAL BASED ON S.U.M.A. STUDY

($ Millions)

	1986	1987	1988	1989	1990	Total
General Government	$ 9.6	$ 12.7	$ 5.5	$ 5.2	$ 10.6	$ 43.6
Protective	10.3	6.2	7.2	3.4	2.4	29.5
Transportation	52.8	85.5	66.6	75.6	46.0	326.5
Environmental Health	5.7	9.7	8.5	9.3	6.9	40.1
Public Health & Welfare	0.5	0.1	0.1	0.4	0.1	1.2
Environmental Dev't.	87.6	73.4	66.5	38.6	31.0	297.1
Recreation & Culture	35.4	34.6	20.3	28.8	33.0	152.1
Utility:						
— Water and Sewer	50.4	47.0	51.0	39.4	46.9	234.7
— Transit	1.6	2.9	4.1	3.4	4.5	16.5
— Electric Light	6.7	12.1	11.7	5.0	2.2	37.7
TOTAL	$260.6	$284.2	$241.5	$209.1	$183.6	$1,179.0

NOTE: The projections were requirements determined from a survey of municipal capital requirements conducted by S.U.M.A. and extrapolated to the entire urban population by the Department of Urban Affairs.

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APPENDIX IV-20

TABLE I

MEDIAN ANNUAL USER CHARGE TO AVERAGE HOUSEHOLD[1]

Municipal Population	Water	Sewer	Combined[2]
1 - 499	$131	$ 54	$192
500 - 1,000	168	60	232
1,001 - 5,000	209	63	269
Over 5,000	134	102	254
All Communities	$137	$ 77	$252

TABLE II

RANGE OF ANNUAL COMBINED WATER AND SEWER USER CHARGE TO AVERAGE HOUSEHOLD[1]

Municipal Population	Low User Charge	High User Charge	Median User Charge
1 - 499	$ 72	$450	$192
500 - 1,000	126	448	232
1,001 - 5,000	111	473	269
Over 5,000	186	650	254

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[1] Average household of 3.1 persons using 6,000 gallons ($27M^3$) per month.

[2] Includes only communities with both water and sewer services.

SOURCE: Saskatchewan Water Corporation, 1985 study.

Local Government Finance Commission
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APPENDIX IV-21

RURAL MUNICIPAL CAPITAL EXPENDITURES BY OBJECT

Year	Engineering Structures	Machinery & Equipment	Buildings	Land	Total
1971	$ 41,994	$ 3,781,307	$ 225,548	$162,264	$ 4,211,113
1972	48,813	4,079,065	1,249,614	68,260	5,445,772
1973	119,466	3,694,731	924,549	99,503	4,838,249
1974	262,195	5,343,167	1,009,423	72,592	6,687,377
1975	216,665	5,663,745	871,308	64,863	6,816,581
1976	106,324	6,276,728	529,007	126,155	7,038,214
1977	434,895	8,389,573	695,268	166,554	9,686,290
1978	811,784	10,230,239	678,313	49,518	11,769,854
1979	580,245	12,029,618	789,518	107,946	13,507,327
1980	938,809	10,637,885	1,077,909	286,592	12,941,195
1981	1,359,790	13,953,251	892,050	299,006	16,504,097
1982	1,733,898	13,796,372	214,147	491,619	16,236,036
1983	1,745,585	13,874,469	219,460	151,652	15,991,166
1984	715,166	15,939,871	1,092,444	216,066	17,963,547
1985 est.					16,900,000

NOTES:

Data for 1971-75 inclusive, also includes Local Improvement Districts.

Engineering structures are permanent improvements other than buildings, which add value to property, including fences, bridges and sidewalks, etc.

SOURCES: Department of Municipal Affairs Annual Report.
Department of Rural Development Annual Report.

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APPENDIX IV-22

PERCENTAGE DISTRIBUTION OF RURAL MUNICIPAL CAPITAL EXPENDITURES BY OBJECT

Year	Engineering Structures	Machinery & Equipment	Buildings	Land	Total[1]
1971	1.00%	89.79%	5.36%	3.85%	100.00%
1972	0.90	74.90	22.95	1.25	100.00
1973	2.46	76.37	19.11	2.06	100.00
1974	3.92	79.90	15.09	1.09	100.00
1975	3.18	83.09	12.78	0.95	100.00
1976	1.51	89.18	7.52	1.79	100.00
1977	4.49	86.61	7.18	1.72	100.00
1978	6.90	86.92	5.76	0.42	100.00
1979	4.30	89.06	5.85	0.80	100.00
1980	7.25	82.20	8.33	2.21	100.00
1981	8.24	84.54	5.41	1.81	100.00
1982	10.68	84.97	1.32	3.03	100.00
1983	10.92	86.76	1.37	0.95	100.00
1984	3.98	88.74	6.08	1.20	100.00
Average 1971 to 1984	5.0%	84.5%	8.9%	1.7%	100.0%

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[1] Figures may not add up to 100.00 due to rounding.

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APPENDIX IV-23

SOURCES OF FINANCING RURAL MUNICIPAL CAPITAL EXPENDITURES

Year[1]	Current Revenue Contribution[2]	Long-Term Capital Debt[3]	Capital Grants[4]	Other[5]	Total[6]
1971	$2,096,967	$ 218,802	$ 61,370	$ 1,833,974	$ 4,211,113
1972	2,591,105	297,993	489,027	2,067,647	5,445,772
1973	2,755,996	316,267	196,395	1,569,591	4,838,249
1974	3,554,434	438,870	268,324	2,425,749	6,687,377
1975	3,865,804	386,488	337,695	2,226,594	6,816,581
1976	3,292,334	2,507,098	124,026	1,155,170	7,078,628
1977	3,922,551	2,676,071	249,090	2,873,517	9,721,229
1978	5,149,520	3,452,622	389,459	2,786,153	11,777,754
1979	1,125,419	4,027,935	296,755	8,057,220	13,507,329
1980	6,470,410	4,533,952	406,392	1,620,438	13,031,192
1981	7,525,662	5,468,209	983,264	2,434,947	16,412,082
1982	7,550,722	4,753,799	293,080	3,656,166	16,253,767
1983	7,916,732	4,520,837	246,479	3,307,118	15,991,166
1984	8,653,322	5,504,863	412,799	3,408,184	17,979,168

FOOTNOTES:

[1] Data for 1971 to 1977, inclusive, includes L.I.D.s.

[2] 1971 to 1975 current revenue contribution includes all operating fund transfers to the capital fund (including transfers for debenture and other long-term debt). Starting in 1976, the current revenue contribution includes only transfers for capital expenditures.

[3] Includes debenture debt, withdrawals from capital trust funds, loans not payable within the year, and advances from other funds.

[4] Includes grants from the federal government and federal agencies, the provincial government and its agencies, and local governments.

[5] The amount of other sources of financing is calculated as the residual after deducting the current revenue contribution, long-term debt and capital grants from total capital expenditures. "Other" includes funds available from previous years, prepaid frontage taxes, proceeds from the sale of property and the disposal of capital assets, contributions/donations, interest earnings of the capital fund and miscellaneous sources.

[6] Total sources of financing equals the total capital expenditures in a particular year.

SOURCE: Summaries of rural municipal financial statements compiled by the former Department of Municipal Affairs and the Department of Rural Development.

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APPENDIX IV-24

PERCENTAGE DISTRIBUTION OF SOURCES OF FINANCING RURAL MUNICIPAL CAPITAL EXPENDITURES

Year	Current Revenue Contribution	Long-Term Capital Debt	Capital Grants	Other	Total
1971	49.80%	5.20%	1.46%	43.55%	100.00%
1972	47.58	5.47	8.98	37.97	100.00
1973	56.96	6.54	4.06	32.44	100.00
1974	53.15	6.56	4.01	36.27	100.00
1975	56.71	5.67	4.95	32.66	100.00
1976	46.51	35.42	1.75	16.32	100.00
1977	40.35	27.53	2.56	29.56	100.00
1978	43.72	29.31	3.31	23.66	100.00
1979	8.33	29.82	2.20	59.65	100.00
1980	49.65	34.79	3.12	12.44	100.00
1981	45.85	33.32	5.99	14.84	100.00
1982	46.45	29.25	1.80	22.49	100.00
1983	49.51	28.27	1.54	20.68	100.00
1984	48.13	30.62	2.30	18.96	100.00
Average 1971-74	51.9%	6.0%	4.8%	37.3%	100.0%
Average 1975-79	35.5%	26.7%	2.9%	35.0%	100.0%
Average 1980-84	47.8%	31.1%	2.9%	18.1%	100.0%
Average 1971-84	44.4%	26.1%	3.2%	26.3%	100.0%

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APPENDIX IV-25

SCHOOL DIVISION CAPITAL EXPENDITURES BY CATEGORY

($ Millions)

Year	New Buildings	Renovations & Additions	Purchase of Land	Instructional Furniture and Equipment	Other Expenditures	Total
1975	$ 7.7	$10.6	$0.4	$0.8	$1.0	$20.5
1976	20.1	5.1	0.4	1.1	1.0	27.7
1977	24.6	7.3	1.0	1.3	1.1	35.3
1978	16.3	10.8	0.6	1.4	1.5	30.6
1979	20.0	14.7	0.4	2.7	2.0	39.8
1980	18.6	8.4	1.3	1.5	2.7	32.5
1981	21.7	17.7	0.7	1.8	2.5	44.4
1982	19.1	27.0	0.6	2.1	2.8	51.6
1983	34.6	32.2	2.5	1.9	1.6	72.8
1984	31.2	31.9	1.7	3.0	2.0	69.8
1985 est.	N/A	N/A	N/A	N/A	N/A	57.5
Compound Average Annual Change 1975 to 1985						10.9%

NOTE:

1) Excludes expenditures by northern school divisions.

2) "Other Expenditures", includes certain school bus purchases, offices, storage facilities, maintenance and repair facilities, and other equipment.

SOURCE: School Division Annual Financial Statements.
Department of Education.

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APPENDIX IV-26

1985 SCHOOL DIVISION CAPITAL PROJECTS APPROVED BY THE DEPARTMENT OF EDUCATION
ANALYSIS OF COSTS APPROVED BY THE DEPARTMENT OF EDUCATION

	Construction	Fees	Miscellaneous	Costs Approved for Capital Grant[1]	Unfixed F. & E.	External Works	Site Costs	Other	Total Costs Approved for Financing[2]	% of Total
New Construction (6 Projects)	$9,261,407	$634,681	$19,745	$ 9,915,833	$652,706	$220,525	$106,900	$110,792	$11,006,756	(20.2%)
% of Total Costs	84.1%	5.8%	0.2%	90.1%	5.9%	2.0%	1.0%	1.0%	100%	
Renovations/Additions (42 Projects)	30,910,839	2,471,999	—	33,382,838	1,354,612	495,073	364,534	265,971	35,863,028	(65.9%)
% of Total Costs	86.2%	6.9%	—	—	93.1%	3.8%	1.4%	1.0%	0.7%	100%
Roof Repair (37 Projects)	5,233,098	507,330	—	5,740,428	28,060	—	—	30,777	5,799,263	(10.7%)
% of Total Costs	90.3%	8.7%	—	99.0%	0.5%	—	—	0.5%	100%	
SUB-TOTAL (85 Projects)	$45,405,342	$3,614,010	$19,745	$49,039,099	$2,035,378	$715,598	$471,434	$407,540	$52,669,047	(96.8%)
% OF TOTAL COSTS	86.2%	6.9%	0.0%	93.1%	3.9%	1.4%	0.9%	0.7%	100%	
Other/Misc. Projects (58 Projects)	1,538,500	158,459	—	1,696,967	2,000	—	—	47,597	1,746,564	(3.2%)
% of Total Costs	88.1%	9.1%	—	97.2%	0.1%	—	—	2.7%	100%	
TOTAL (143 Projects)	$46,943,850	$3,772,469	$19,745	$50,736,066	$2,037,378	$715,598	$471,434	$455,137	$54,415,611	(100%)
% OF TOTAL COSTS	86.3%	6.9%	0.0%	93.2%	3.7%	1.3%	0.9%	0.8%	100%	

FOOTNOTES:

[1] These are the costs to which the capital grant applies.

[2] Although unfixed furniture and equipment, external works, site costs and "other" costs are not included in the approved cost to which the capital grant applies, they do form part of the overall cost approved by the Department of Education. The overall approved cost, after taking into account the capital grant, determines the amount of borrowing and downpayment required by the school division. The retirement of approved capital is fully reimbursed by the Department of Education and, in this indirect way, there is grant support for those approved costs which are not eligible for the capital grant.

SOURCE: School Capital Project Approval Forms, Department of Education.

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APPENDIX IV-27

1985 SCHOOL DIVISION CAPITAL PROJECTS APPROVED BY THE DEPARTMENT OF EDUCATION
SOURCES OF FINANCING

	Grant	Debenture Interest	F.S.T. Rebate	Debentures	Down-Payment	Down-Payment Grant	L.G.B. Approved Loan	Reserves	Dental Funds (Included in Debentures)	Previous Balance	Other	Total	% of Total
New Buildings (6 Projects)	$ 1,383,718	$14,210	$ 90,670	$ 3,862,000	$ 976,995	—	$111,843	$89,509	$ (55,319)	$200,000	$4,277,811	$11,006,756	20.2%
% of Total	12.6%	0.1%	0.8%	35.1%	8.9%	—	1.0%	0.8%	(0.5%)	1.8%	38.9%	100%	
Renovations, Additions, Etc. (42 Projects)	6,359,117	72,264	324,069	19,279,000	3,548,898	$1,875,116	2,926,508	1,021,462	(228,645)	317,113	350,087	36,073,634	66.0%
% of Total	17.6%	0.2%	0.9%	53.4%	9.8%	5.2%	8.1%	2.8%	(0.6%)	0.9%	1.0%	100%	
Roof Repairs (37 Projects)	912,398	3,307	—	1,033,000	1,092,817	88,706	1,589,065	796,296	(23,744)	221,800	61,874	5,799,263	10.6%
% of Total	15.7%	0.1%	—	17.8%	18.8%	1.5%	27.4%	13.7%	(0.4%)	3.8%	1.1%	100%	
SUB-TOTAL	8,655,233	89,781	414,739	24,174,000	5,618,710	1,963,822	4,627,416	1,907,267	$ (307,708)	738,913	$4,689,772	$52,879,653	96.8%
% OF TOTAL	16.4%	0.2%	0.8%	45.7%	10.6%	3.6%	8.8%	3.6%	(0.6%)	1.4%	8.9%	100%	
Other/Misc. Projects (58 Projects)	$473,287	—	—	170,000	527,830	—	—	531,379	—	5,000	41,220	1,748,716	3.2%
% of Total	27.1%	—	—	9.7%	30.2%	—	—	30.4%		0.3%	2.4%	100%	
TOTAL	$9,128,520	$89,781	$414,739	$24,344,000	$6,146,540	$1,963,822	$4,627,416	$2,438,646	$ (307,708)	$743,913	$4,730,992	$54,628,369	100%
% OF TOTAL	16.7%	0.2%	0.8%	44.6%	11.3%	3.6%	8.5%	4.5%	(0.6%)	1.4%	8.7%	100%	

NOTE: For some projects, adjustments to approved costs were made and there was a lapse in time before adjustments were made in the approved sources of funds. Consequently, there are some differences in the total costs approved as outlined in Appendix IV-26 and the total revenues approved as outlined in this appendix.

SOURCE: School Capital Project Approval Forms, Department of Education.

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APPENDIX IV-28

SOURCE OF CAPITAL FINANCING FOR SCHOOL DIVISIONS PROJECTS APPROVED BY THE DEPARTMENT OF EDUCATION

($'000)

Year[1]	Capital Grant	F.S.T. Rebate	Debentures	Down-payment	Loans	Reserve	Other Current Revenues	Dental Funds	Previous Balance	Other Funds	Total Cost[2]	Grant as % Total	Debentures as % Total	Downpayment as % Total	Loans and Reserves as % Total
1975	$12,122	$461	$15,792	$ 3,438	—	$1,965	$752	—	—	$5,245	$39,775	30.5%	39.7%	8.6%	4.9%
1976	10,981	364	19,742	3,920	657	2,051	402	—	$ 198	3,407	41,722	26.3	47.3%	9.4%	6.5%
1977	12,687	524	23,449	4,583	521	1,909	354	46	1,330	4,241	49,644	25.6	47.2	9.2	4.9
1978	11,347	309	11,390	3,792	1,485	6,893	55	143	615	1,058	37,086	30.6	30.7	10.2	22.6
1979	5,259	172	5,335	1,582	285	2,664	24	107	145	2,168	17,740	29.6	30.1	8.9	16.6
1980	8,003	367	15,792	4,819	$1,484	3,063	—	$336	433	3,523	37,821	21.2	41.8	12.7	12.0
1981	10,363	405	20,300	6,813	2,481	3,045	—	483	1,047	3,179	48,115	21.5	42.2	14.2	11.5
1982	13,515	489	32,944	9,701	1,445	2,814	—	544	2,753	4,099	68,304	19.8	48.2	14.2	6.2
1983	10,285	439	30,524	8,749	3,859	1,568	—	269	2,744	3,926	62,362	16.5	48.9	14.0	8.7
1984	18,686	844	55,054	12,703	1,525	1,824	—	146	3,997	2,026	96,805	19.3	56.9	13.1	3.5
1985	9,128	415	24,036	8,111	4,627	2,439	—	308	744	4,821	54,628	16.7	44.0	14.8	12.9

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[1] These are capital projects approved by the Department of Education in the respective years. Because the approved projects are actually undertaken at various time intervals subsequent to the issuance of the approvals, these data will not match with actual capital expenditures for the individual years.

[2] May not balance due to rounding.

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APPENDIX IV-29

PRIORITY CATEGORIES FOR SCHOOL CAPITAL PROJECTS

Priority Ranking	Criteria for Priority Ranking
1	Projects which are urgently required for health and safety considerations and usually involve major renovations or replacement.
2A	Projects which are required due to enrolment pressures requiring increased classroom space and where transportation is not a feasible option.
2B	Major projects which are required to prevent further deterioration of the structure of the facility.
3A	Facilities are required due to program requirements (e.g. gymnasium and learning resource centres) - requires at least three program deficiencies.
3B	Same as category 3A, except only 1 or 2 program deficiencies exist.
4	Projects which are highly desirable, such as neighbourhood schools or which are required to resolve less urgent fire and health considerations.
5	Projects which could be deferred due to budgetary restrictions.
6	Projects which should not be approved because doubt exists about the enrolment, viability or nature of the project.

SOURCE: Department of Education

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APPENDIX IV-30

DEBT RETIREMENT AS A PERCENTAGE OF OPERATING EXPENDITURES OF SCHOOL DIVISIONS[1]

Year	Debt Retiremant[2]	Total Operating Expenditures[3]	Debt Retirement as a Percentage of Total Expenditures
1970	$12,070,846	$159,740,178	7.6%
1971	11,723,887	164,951,474	7.1
1972	11,945,500	179,522,552	6.6
1973	11,837,084	190,736,930	6.2
1974	12,188,171	214,796,060	5.7
1975	12,339,898	249,427,465	4.9
1976	13,812,712	298,312,968	4.6
1977	16,910,758	331,212,501	5.1
1978	20,197,345	363,038,369	5.5
1979	21,588,751	398,823,004	5.4
1980	24,010,428	440,571,317	5.4
1981	27,469,632	501,754,150	5.5
1982	33,173,734	579,145,375	5.7
1983	36,521,455	627,829,289	5.8
1984	45,135,884	672,173,374	6.7
1985	52,698,476	701,109,458	7.5

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[1] Excludes school divisions formerly under the jurisdiction of the Department of Northern Saskatchewan.

[2] These figures include some current interest expense.

[3] Total operating expenditures minus fee expenditure.

SOURCE: Department of Education Reports, and budget analysis documents.

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APPENDIX IV-31
IMPLICATIONS OF REDUCTION IN PROVINCIAL SHARE OF SCHOOL CAPITAL DEBT RETIREMENT COSTS

ASSUMPTIONS

- There are three divisions, "A", "B" and "C".
- The local assessment bases of the school divisions are quite different:
  Division "A" - $10,000,000
  Division "B" - $25,000,000
  Division "C" - $40,000,000
- Although their local tax bases are substantially different, the divisions are similar in other ways, and the recognized expenditure in the foundation formula is $5,000,000 for each division.
- The computational mill rate stays at 100 mills for each of the 4 years.
- There are no changes in costs from year to year, nor are there any changes in the foundation formula, except as it relates to the treatment of capital debt retirement.
- Each school division has $200,000 of capital debt retirement in years 1 and 2. In years 3 and 4, it rises to $400,000 and $600,000, respectively.
- In year 1 (the current situation), the Department of Education pays a grant equal to 100% of capital debt retirement, separate from the foundation grant.
- In years 2 to 4, the department reimburses the divisions for only a percentage of their capital debt retirement. That percentage is the foundation grant percentage for the previous year. (This is only for the purpose of showing the probable long-term impact. The policy option examined by the Commission would have the reduced percentage of assistance for capital debt retirement only to capital debt incurred in the future, not to the retirement of current capital debt).

Item	Division "A"	Division "B"	Division "C"
Year 1 (Current Situation)			
1. Recognized Expenditure	$ 5,000,000	$ 5,000,000	$ 5,000,000
2. Assessment	$10,000,000	$25,000,000	$40,000,000
3. Computational Mill Rate	100 mills	100 mills	100 mills
4. Recognized Local Revenue: Item 2. x Item 3. x 1/1,000	$ 1,000,000	$ 2,500,000	$ 4,000,000
5. Foundation Grant: Item 1. - Item 4.	$ 4,000,000	$ 2,500,000	$ 1,000,000
6. Foundation Grant %: Item 5. ÷ Item 1. x 100	80.0%	50.0%	20.0%
7. Capital Debt Retirement	$ 200,000	$ 200,000	$ 200,000
8. Capital Debt Grant (100%)	$ 200,000	$ 200,000	$ 200,000
9. Total Expenditure Requirement: Item 1. + Item 7.	$ 5,200,000	$ 5,200,000	$ 5,200,000
10. Total Grants: Item 5. + Item 8.	$ 4,200,000	$ 2,700,000	$ 1,200,000
11. Local Share of Expenditure Requirement: Item 9. - Item 10.	$ 1,000,000	$ 2,500,000	$ 4,000,000
12. Mill Rate Required: [Item 11. ÷ Item 2.] x 1,000	100 mills	100 mills	100 mills
Year 2 (Proposed)			
13. Recognized Expenditure	$ 5,000,000	$ 5,000,000	$ 5,000,000
14. Computational Mill Rate	100 mills	100 mills	100 mills
15. Recognized Local Revenue: Item 2. x Item 14. x 1/1,000	$ 1,000,000	$ 2,500,000	$ 4,000,000
16. Foundation Grant: Item 13. - Item 15.	$ 4,000,000	$ 2,500,000	$ 1,000,000
17. Foundation Grant %: Item 16. ÷ Item 13. x 100	80.0%	50.0%	20.0%

APPENDIX IV-31 (continued)

IMPLICATIONS OF REDUCTION IN PROVINCIAL SHARE OF SCHOOL CAPITAL DEBT RETIREMENT COSTS

Item	Division "A"	Division "B"	Division "C"
Year 2 (Proposed) (continued)			
18. Capital Debt Retirement	$ 200,000	$ 200,000	$ 200,000
19. Capital Grant: Item 18. x Item 6.	$ 160,000	$ 100,000	$ 40,000
20. Total Expenditure Requirement: Item 13. + Item 18.	$ 5,200,000	$ 5,200,000	$ 5,200,000
21. Total Grants: Item 16. + Item 19.	$ 4,160,000	$ 2,600,000	$ 1,040,000
22. Local Share of Expenditure Requirement: Item 20. - Item 21.	$ 1,040,000	$ 2,600,000	$ 4,160,000
23. Local Mill Rate Required: [Item 22. ÷ Item 2.] x 1,000	104 mills	104 mills	104 mills
Year 3 (Proposed)			
24. Recognized Expenditure	$ 5,000,000	$ 5,000,000	$ 5,000,000
25. Computational Mill Rate	100 mills	100 mills	100 mills
26. Recognized Local Revenue: Item 2. x Item 25. x 1,000	$ 1,000,000	$ 2,500,000	$ 4,000,000
27. Foundation Grant: Item 24. - Item 26.	$ 4,000,000	$ 2,500,000	$ 1,000,000
28. Foundation Grant %: Item 27. ÷ Item 24. x 100	80.0%	50.0%	20.0%
29. Capital Debt Retirement	$ 400,000	$ 400,000	$ 400,000
30. Capital Grant: Item 29. x Item 17.	$ 320,000	$ 200,000	$ 80,000
31. Total Expenditure Requirement: Item 24. + Item 29.	$ 5,400,000	$ 5,400,000	$ 5,400,000
32. Total Grants: Item 27. + Item 30.	$ 4,320,000	$ 2,700,000	$ 1,080,000
33. Local Share of Expenditure Requirement: Item 31. - Item 32.	$ 1,080,000	$ 2,700,000	$ 4,320,000
34. Mill Rate Required: Item 33. ÷ Item 2. x 1,000	108 mills	108 mills	108 mills
Year 4 (Proposed)			
35. Recognized Expenditure	$ 5,000,000	$ 5,000,000	$ 5,000,000
36. Computational Mill Rate	100 mills	100 mills	100 mills
37. Recognized Local Revenue: Item 2. x Item 36. x 1/1,000	$ 1,000,000	$ 2,500,000	$ 4,000,000
38. Foundation Grant: Item 35. - Item 37.	$ 4,000,000	$ 2,500,000	$ 1,000,000
39. Foundation Grant %: Item 38. ÷ Item 35. x 100	80.0%	50.0%	20.0%
40. Capital Debt Retirement	$ 600,000	$ 600,000	$ 600,000
41. Capital Grant: Item 40. x Item 28.	$ 480,000	$ 300,000	$ 120,000
42. Total Expenditure Required: Item 35. + Item 40.	$ 5,600,000	$ 5,600,000	$ 5,600,000
43. Total Grants: Item 38. + Item 41.	$ 4,480,000	$ 2,800,000	$ 1,120,000
44. Local Share of Expenditure Requirement: Item 42. - Item 43.	$ 1,120,000	$ 2,800,000	$ 4,480,000
45. Mill Rate Required: Item 44. ÷ Item 2 x 1,000	112 mills	112 mills	112 mills

APPENDIX IV-31 (continued)

IMPLICATIONS OF REDUCTION IN PROVINCIAL SHARE OF SCHOOL CAPITAL DEBT RETIREMENT COSTS

NOTES:

1) In the foregoing example, the mill rate required to meet recognized expenditures climbs from 100 mills to 112 mills. This happens only if the Department of Education reduces its support for capital debt retirement and makes no compensating adjustments in the foundation formula so as to maintain its overall share of the costs of education. If such compensation were made, there would be no overall increase in school mill rates. School divisions with little or no capital debt retirement would be able to reduce their mill rates, while those with higher-than-average capital debt retirement would require higher mill rates. The foregoing examples only show the case of school divisions which have higher-than-average capital debt retirement.

Capital debt retirement amounted to approximately $48.4 million in 1985. If the Department of Education were to recognize only the foundation percentage of capital debt retirement, on average, it would cut grants for capital debt retirement roughly in half. If the saving of $48.4 million x 1/2 = $24.2 million for capital debt retirement were transferred to the foundation formula, the computational mill rate could be reduced by more than 8 mills, and foundation grants would rise to each school division to the extent of 8 mills on the assessment base of the school division, thereby permitting the mill rate to be 8 mills lower than it would be otherwise.

2) A review of all school divisions with student populations of more than 400 reveals that none of those school divisions has capital debt retirement that is greater than 12% of their budgets. In the foregoing example, the school divisions in year 4 each have capital debt retirement of 12% of recognized expenditures. Thus, the example is based on a rather extreme case. On average, capital debt retirement amounts to 6.9% of total expenditures.

3) Based on all of the foregoing, the Commission estimates that if the policy option were implemented, in the long run:

- i) Mill rates of divisions with relatively high amounts of capital debt would end up having mill rates 4 to 5 mills higher than they would be otherwise.
- ii) A difference in mill rate requirements **attributable to the policy on capital debt retirement** would amount to a **maximum** of about 12 mills between the divisions with little or no capital debt retirement on the one hand, and those with debt retirement equivalent to up to 12% of their budget, on the other hand.

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APPENDIX IV-32

EXAMPLES OF OPERATION OF POSSIBLE POLICY ON PROVINCIAL FUNDING OF ROOF REPAIRS

	Situation							
	Wealth of Division Varies[1]		Size of Project Varies[2]			Size of Division Varies[3]		
Item	"Wealthy" Division	"Non-Wealthy" Division	Small Project	Medium Project	Large Project	Small Division	Medium Division	Large Division
1. Project Cost	$ 75,000	$ 75,000	$ 30,000	$ 75,000	$ 150,000	$ 75,000	$ 75,000	$ 75,000
2. Assessment of Division	40,000,000	10,000,000	15,000,000	15,000,000	15,000,000	10,000,000	40,000,000	400,000,000
3. Equivalent of 1 Mill	40,000	10,000	15,000	15,000	15,000	10,000	40,000	400,000
4. Portion of Project Considered to be Capital	55,000	65,000	15,000	60,000	135,000	65,000	55,000	55,000
5. Foundation Grant Percentage	20%	80%	50%	50%	50%	50%	50%	50%
6. Provincial Assistance	11,000	52,000	7,500	30,000	67,500	32,500	27,500	27,500
7. Local Share	64,000	23,000	22,500	45,000	82,500	42,500	47,500	47,500

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[1] The project cost is assumed to be the same, but it is assumed that there are two different divisions, one "wealthy" and one "non-wealthy" as reflected by their assessments and their foundation grant percentages.

[2] The only thing that varies in these three examples is the size of the project.

[3] The size of project is assumed to remain constant, but the size of the division, as reflected by its assessment, varies. It is assumed that the expenditure requirements of the division vary in proportion to the local assessment base and that, accordingly, the foundation grant percentage is the same for each.

EXPLANATION OF ITEMS

Item 1 - Cost of a roof repair project.

Item 2 - 1985 equalized assessment of the school division.

Item 3 - Value of 1 mill is calculated as .001 x equalized assessment.

Item 4 - It is assumed that to be considered capital, a project must exceed $20,000 or the equivalent of one mill, whichever is the lesser. The portion of the project considered to be capital is calculated as the project cost (Item 1) minus $20,000 or the equivalent of 1 mill (Item 3), whichever is less. It is further assumed that it is only the cost in excess of this threshold to which the provincial assistance applies.

Item 5 - This is the foundation grant as a percentage of the expenditures recognized under the foundation formula. Except in the case of the "wealthy" and "non-wealthy" divisions which are assumed to have foundation grant percentages of 20% and 80%, respectively, it is assumed that divisions are of average wealth and that they have foundation grant percentages of 50%.

Item 6 - This is the "portion of the project considered to be capital" (Item 4) multiplied by the foundation grant percentage (Item 5).

Item 7 - This is the total project cost (Item 1) minus the provincial assistance (Item 6).

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APPENDIX V-1

HOSPITAL OPERATING DEFICITS 1980-81 to 1984-85 ($ millions)

Year	Approved Operating Expenditures	Net Deficit	Deficit as a % of Expenditures
1980-81	$292.9	$3.5	1.2%
1981-82	338.5	3.6	1.1
1982-83	409.6	4.1	1.0
1983-84	453.2	3.6	0.8
1984-85	479.8	4.3	0.9

SOURCE: Saskatchewan Hospital Services Plan

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APPENDIX V-2

SUMMARY OF RECENT CONSTRUCTION GRANT FORMULAS

	1970 to 1982	1982 to Present
Base Hospitals	60%	100%[1]
Regional Hospitals	50	70
Large Community Hospitals (50 + Average Daily Census)	40	60
Small Community Hospitals (up to 50 Average Daily Census)	40	50
Cost Protection Grant		Over 5 mills[2]
Union Hospitals	NIL	Maximum 85%
Religious Hospitals	NIL	50% over $500,000

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[1] Base hospitals are responsible for all associated equipment costs.

[2] The Province pays for costs in excess of the equivalent of 5 mills on the local tax base over a period of 10 years, up to a maximum of 85% of costs.

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APPENDIX V-3
ANALYSIS OF AVERAGE UNION HOSPITAL TAX REQUISITIONS

	1985		1984		1983		1982		1978	
	Amount	Mill Rate	Amount	Mill Rate	Amount	Mill Rate	Amount	Mill Rate	Amount	Mill Rate
Debenture	$1,334,468	0.88 mills	$1,339,721	0.88 mills	$1,472,168	0.98 mills	$1,700,806	1.15 mills	$1,537,776	1.20 mills
Capital	4,086,204	2.69	4,004,823	2.63	3,359,028	2.23	3,232,424	2.19	1,486,773	1.16
Operating Deficit	3,500,193	2.31	3,255,144	2.14	3,090,258	2.05	3,135,537	2.13	2,149,430	1.68
Tax Cancellation/ Discount	341,777	0.23	335,738	0.22	324,924	0.22	308,704	0.21	193,967	0.15
Prior Year's Expenditure	239,037	0.16	336,729	0.22	573,098	0.38	390,245	0.26	317,548	0.24
Reserve for Capital	939,517	0.62	738,717	0.49	769,092	0.51	915,639	0.62	93,928	0.07
Charge to Surplus	(655,499)	0.43	(476,292)	0.31	(360,017)	0.24	(749,338)	0.51	(46,769)	0.04
TOTAL	$9,785,698	6.45	$9,534,580	6.26	$9,228,596	6.12	$8,934,017	6.06	$5,732,653	4.48
Prior Year's Equalized Assessment	$1,517,032,127		$1,523,042,526		$1,508,121,400		$1,473,903,798		$1,278,507,357	

SOURCE: Saskatchewan Hospital Services Plan.

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APPENDIX V-4

UNION HOSPITAL DISTRICTS CAPITAL AND OPERATING DEFICIT LEVIES IN MILLS

1985

	Number of Union Hospital Districts[1]		
Mills	**Operating Deficit**	**Capital**	**Combined Deficit and Capital**
0 mills	22	13	9
0.1 - .99	20	5	0
1.0 - 1.99	11	12	1
2.0 - 2.99	19	12	5
3.0 - 3.99	11	21	11
4.0 - 4.99	10	10	8
5.0 - 5.99	3	15	17
6.0 - 6.99	3	8	11
7.0 - 7.99	3	3	9
8.0 - 8.99	2	6	10
9.0 - 9.99	2	4	3
10.0 - 10.99	4	3	8
11.0 - 14.99	3	3	13
15.0 - 19.99	2	1	6
20.0 and over	1	0	5
	116	116	116

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[1] The number of union hospital districts which levy a certain number of mills to finance their operating deficit should be viewed separately from the number which levy a certain number of mills for capital purposes. For example, the 5 hospital districts which levy from 0.1 to .99 mills for capital purposes are not necessarily the same as the 20 hospitals which levy 0.1 to .99 mills for their operating deficit. The column entitled "combined deficit and capital" shows the distribution of the combined levies for operating deficits and capital purposes.

SOURCE: Saskatchewan Hospital Services Plan.

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APPENDIX V-5

PAYMENTS UNDER THE HOSPITAL REVENUE ACT

1971 TO 1985

Year	Number of Municipalities	Amount of Tax	Number of Hospitals Receiving
1971	123	$263,990	54
1972	120	259,673	55
1973	114	230,622	47
1974	115	242,535	47
1975	113	234,098	50
1976	112	254,064	52
1977	113	260,621	53
1978	112	267,739	51
1979	112	272,520	49
1980	112	281,659	49
1981	114	292,155	50
1982	111	305,242	44
1983	113	313,731	45
1984	116	311,606	44
1985	114	312,839	40

SOURCE: Saskatchewan Hospital Services Plan.

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APPENDIX V-6

DESCRIPTION OF HOSPITAL SERVICES IN OTHER PROVINCES

1. ONTARIO

Most of Ontario's hospitals are owned by non-profit corporations established under Ontario's **Business Corporation Act**. These non-profit corporate hospital boards, for the most part, do not have access to the local property tax base.

For capital construction costs, the provincial government has a capital grant program which funds up to 2/3 of the approved costs of construction. For northern hospitals, the grant can be increased to a maximum of 5/6 of the approved capital costs. The remainder of the approved costs must be funded by the hospitals using their own revenues such as donations and accumulated cash reserves. Some hospitals are owned by municipal non-profit corporations, and a small number of these do have a local levy for capital costs.

For operating purposes, hospitals are expected to operate within their approved budget as the Province will not finance deficits. Hospitals are allowed to borrow, but they must fund deficits from within their own revenue sources.

2. MANITOBA

The public general hospitals in Manitoba consist of provincially owned hospitals, religious hospitals which are owned and operated by religious orders, and district hospitals which are owned by participating municipalities. District hospitals are similar to Saskatchewan's union hospitals in that they are allowed to levy for expenses not covered by the Province, and their board members are appointed by the municipalities.

For capital construction costs, the Manitoba government funds 100% of the approved capital budget which is amortized over a 15 year period. The hospital may borrow funds to purchase equipment and the provincial government funds the amortized costs of approved equipment. Municipal hospitals are allowed to levy member municipalities for capital costs not supported by the Province but, in actual practice, the hospital district levy is very low because virtually all capital funding is provided by the Province.

For operating deficits, hospitals may use ancillary funds or municipal hospitals may levy taxes in the member municipalities. In actual practice, there are not many unapproved costs (deficits) following the year-end review by the provincial government.

3. ALBERTA

The district-owned hospitals in Alberta have the power to requisition funds from their participating municipalities, but this power is conditional on approval by the provincial government. The boards of district hospitals are appointed by the councils of the member municipalities, and the members are often elected municipal councillors, although this is not a requirement. The Minister of Health appoints the boards of the provincially owned hospitals and appoints representatives of improvement districts to district hospitals.

Religious hospitals are owned and operated by specific religious orders, but they have an equity agreement with the Province in order to be eligible for capital and operating grants. The equity agreement calls for recognition of provincial contributions, if the hospital is sold to a hospital district or the Province. Religious hospitals may approach municipalities for financial support, but any support is voluntary.

The provincial government funds 100% of capital costs of new facilities, renovations, paving, land improvements, and lighting of the area external to the hospital. For items such as nurses' residences, doctors' clinics, and parking, the provincial government does not provide funding, but may approve the requisition of funds from municipalities in the hospital district. The Province will not approve the requisition of funds for unapproved equipment and operating deficits which, if incurred, must be funded from the hospitals' other sources of funds.

4. BRITISH COLUMBIA

The majority of B.C.'s general hospitals are owned by non-profit societies. The membership of these societies is open to all residents, except those specifically excluded such as employees of the hospital or children. Members of the Society do not receive any beneficial rights or preferred access to treatment services. At the present time, there are no provincially owned and operated hospitals, and two hospitals previously owned by municipalities have been converted to a "society" ownership. There are currently three hospitals which have been created by a private Act of the Legislature, and there are a small number of hospitals owned and operated by religious orders. Both of these types of ownership have declined significantly over the years, and it is anticipated that ultimately all general hospitals will be owned by societies.

There are 28 regional hospital districts in the province.These districts have the same boundaries as regional districts which are responsible for municipal services throughout the province. Each municipal council appoints one of its councillors to the Regional District Board. This district board is responsible for the local financing of hospitals within the district, as well as for regular municipal services.

The provincial government normally funds 60% of approved capital costs. The remaining 40% of capital costs are funded by the Regional Hospital District. There is a cost protection limit, in that if the district's responsibility for hosital capital costs (principle plus interest) exceeds 4 mills, the Province will increase its share to a maximum of 80% of the approved capital costs.

Hospital operating deficits are the responsibility of the hospitals and deficits must be funded from their other sources of funds. Regional hospital districts will not fund operating deficits.

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APPENDIX V-7
HOSPITAL CAPITAL GRANTS IN OTHER PROVINCES

British Columbia	- 60% of actual costs, plus a portion of capital debt - regions assume 40% of costs, but raise 100% through debentures
Alberta	- 100% of actual costs, plus capital grants for start-up
Manitoba	- 100% of actual costs less the cost of serviced land
Ontario	- 100% of actual costs in teaching hospitals - 2/3 of actual costs in non-teaching hospitals
Quebec	- 100% of actual costs except where hospitals have funds through donations, etc; they may also cost-share
New Brunswick	- 100% of actual costs except where hospitals have funds available through donations, etc; they may also cost-share
Nova Scotia	- 80% of costs made up of outright grants (40%) and capital debt assistance plan (40%)
Prince Edward Island	- 100% of actual costs while private sector assumes responsibility for furnishings and equipment
Newfoundland	- 100% of actual costs

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APPENDIX V-8
EXAMPLES OF DECISION-MAKING RESPONSIBILITIES

A. HOSPITAL BOARDS

- development of hospital and medical staff bylaws, and rules and regulations;
- decisions on services provided: e.g additional services such as coronary care units;
- staffing levels;
- appointment of physician to the medical staff of the hospital;
- temporary closure of the hospital;
- hiring and firing of staff, including the administrator;
- entering into contracts for the construction/renovation of a hospital;
- financial arrangements, including investment, levying taxes in the union hospital district, appointment of an external auditor, issuing of debentures, short-term borrowing, and re-allocation of provincial funding;
- purchasing and disposal of property, including expropriation.

B. PROVINCIAL GOVERNMENT

- the Local Government Board must approve all capital reserves and borrowing for a term exceeding two years;
- the Minister of Health must approve all construction and renovation projects and associated contracts;
- the Minister of Health must approve all bylaws and regulations before they come into effect;
- the hospital must abide by a set of minimum standards of patient care, and the administration of the hospital as outlined in **The Hospital Standards Act;**
- the Province may suspend payments to the hospital in situations where medical coverage is not available or the hospital is unable to employ sufficient numbers of qualified nurses;
- the minister may appoint a board of inquiry to investigate disputes between the hospital and its medical staff, hold an inquiry into the administration of a hospital and appoint a public administrator of the hospital;
- the minister may make appointments to the board in instances where the hospital provides a large amount of services to Indians.

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APPENDIX V-9

PROPOSED STRUCTURE FOR THE GOVERNANCE AND LOCAL FINANCING OF HOSPITALS

1. MANDATORY PARTICIPATION IN HOSPITAL DISTRICTS

All municipalities would be required to belong to a hospital district which would operate or have a contractual arrangement with one or more hospitals. Each municipality or a portion of a municipality would have the choice as to which district it would join. However, there would be a requirement that a municipality must join an adjoining hospital district and the hospital in that district would be required to provide hospital services to the residents of the municipality. If the municipality did not voluntarily join a hospital district, then the Minister of Health should be given the authority to designate the hospital district to which the municipality should belong.

The current relationship between municipalities and union hospital districts in which there is only one hospital would not be altered.

There are currently nine union hospital districts which do not own and operate a hospital; eight of these districts operate health and social centres. These districts could maintain their responsibility for health and social centres and contract with another hospital district for support of a hospital. However, the preferred option would be for these union hospital districts to amalgamate with another hospital district and the newly formed district would be responsible for the operation of both the hospital and the community health and social centre.

Municipalities which currently are served only by a religious/not-for-profit hospital and which support the hospital through agreements under **The Hospital Revenue Act** would form hospital districts. Each district would have a Board comprised of representatives from the participating municipalities. The Board would then enter into an agreement with the religious hospital allowing for access to property tax revenues from municipalities in the district. As is current common practice, municipal and district representation on the local board of management of the religious hospital would be specified in the agreement. This type of arrangement has worked in the past and facilitates the purchase of the hospital by the hospital district should the owners of the religious/not-for-profit hospital decide at some future date to divest themselves of the operation of the hospital.

Hospital districts would be created for each of Regina and Saskatoon and the surrounding municipalities which currently pay the hospital revenue tax or have agreements under **The Hospital Revenue Act** to support the base hospitals in Regina or Saskatoon. The hospital district board would be independent from the boards of the hospitals, but would have a contracted arrangement for the access of local tax funds and for representation on the hospital board. Alternatively, separate legislation similar to the proposed **The Major Urban Centres Integrated Hospitals Act** could be considered to provide the hospital district board the authority to acquire and operate the base hospitals in the two cities.

In the cities of Moose Jaw and Prince Albert where there are both a union hospital and a religious/not-for-profit hospital, the issue is not one of participation in a hospital district but, instead, it is the nature and the role of the organizational structure. This issue is addressed later in this appendix.

2. HOW REQUISITIONS WOULD BE ISSUED

A. Current Union Hospital Districts

Union hospitals which determine that a requisition is required would submit their request through the union hospital district to the participating municipalities for approval. The district board would be responsible for explaining and presenting the request to the member municipalities. A majority of the municipalities representing a majority of the equalized assessment in the district must approve the request or the request would be rejected.

In the case where the district supports two or more hospitals, the district board would co-ordinate the requests in addition to its other responsibilities. The requests could be submitted separately or in a combined form to the municipalities.

B. Municipalities Supporting a Religious/Not-for-Profit Hospital

As noted earlier, these municipalities would be required to form a hospital district. A district hospital board would be formed to explain and present the request for local requisitions from the participating municipalities. A majority of the municipalities representing a majority of the assessment in the district must either approve or deny the request for a requisition.

An alternative would be to dispense with the district board and allow the board of the religious/not-for-profit hospital to present its requests directly to the municipalities for their approval or disapproval. This option might be preferred because it would avoid creating an additional board.

C. Regina and Saskatoon

Regina and its neighbouring municipalities would join together to form a hospital district. Similarly, Saskatoon and its neighbouring municipalities would join together to form a hospital district.

Requests for local revenues from participating municipalities could be handled in one of several ways:

1) Omnibus District Board
    - A district board comprised of representatives from participating municipalities would be established.
    - Hospitals would continue to be governed by separate boards of management.
    - The district board would be responsible for co-ordinating requests for local revenues from the three hospitals and would explain and present a single request for a requisition to member municipalities.
2) Each Hospital Submits Its Own Request
    - Each hospital board would submit its own request for a requisition to the member municipalities.
    - Municipalities could approve or reject one, two or three of the requests.
3) Representative from Each Hospital Comprise District Board
    - Representatives from each hospital board would join together to form a district board.
    - The district board would be responsible only for receiving requests for local revenues and could not reject an individual hospital's request.
    - The district board would explain and present the requests to the member municipalities.

APPENDIX V-9 (continued)
PROPOSED STRUCTURE FOR THE GOVERNANCE AND LOCAL FINANCING OF HOSPITALS

D. Prince Albert and Moose Jaw

In the case of Prince Albert and Moose Jaw where there are both union and religious/not-for-profit hospitals, there are three basic options for handling requests for hospital requisitions:

1) Union Hospital District Board
   - The current union hospital district board comprised of representatives from member municipalities would continue.
   - The union hospital district board would be responsible for receiving requests from both hospitals and explaining and presenting them to the municipalities, but it could not reject an individual hospital's request.
2) Each Hospital Submits Its Own Request
   - Each hospital would submit its own request to the participating municipalities for approval.
3) Separate District Board
   - A separate district board would be created to receive, co-ordinate, rationalize and present the requests of the two hospitals.
   - Both the union hospital board and board of the religious/not-for-profit hospital would continue, and would be responsible for submitting their requests to the district board.
   - The separate district board could be appointed by the participating municipalities (which might be considered to be a duplication of the union hospital district board), or it could consist of representatives of the union hospital board and the board of the religious/not-for-profit hospital.

E. Principles

The Commission believes the following principles should govern the selection of appropriate mechanisms/structures for issuing hospital requisitions:

- Religious/not-for-profit hospitals should not be placed in an inferior or subservient position relative to other hospitals in having access to the property tax base, subject to the approval of participating municipalities in the hospital district.
- Requests for a hospital requisition should be clear, understandable, and avoid unnecessary administrative problems and costs.

The Commission believes that the various options identified for the different circumstances should be explored in greater detail before the proposal is implemented.

3. HOSPITAL REVENUE TAX

The hospital revenue tax was originally developed as an incentive for municipalities to join union hospital districts. As participation in a hospital district would be compulsory for each municipality, the need for an incentive for participation would no longer be required, and the hospital revenue tax could be discontinued.

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APPENDIX VI-1

SELECTED INFORMATION: PUBLIC LIBRARIES - 1984-85

	Participating Areas/Organizations				Services Available			No. of Members	
	Urban	R.M.s	Other	Total	Branches	Bookmobiles	Book Deposits	Board	Executive Committee
1. Chinook Regional Library Swift Current	45	42	1	98	37	1	—	100	8
2. Lakeland Regional Library North Battleford	39	28	11	78	39	1	11	79	10
3. Palliser Regional Library Moose Jaw	43	27	3	73	22	—	6	80	10
4. Parkland Regional Library Yorkton	88	47	11	146	54	2	10	149	9
5. Southeast Regional Library Weyburn	77	53	8	138	54	2	39	136	8
6. Wapiti Regional Library Prince Albert	51	31	7	89	50	—	—	91	13
7. Wheatland Regional Library	84	52	1	137	37	3	28	135	8
8. Lloydminster Public Library	1	—	—	1	1	—	3	?	—
9. Regina Public Library	1	—	—	1	7	3	23	9	—
10. Saskatoon Library	1	—	—	1	5	3	42	9	—

SOURCE: 1984-85 Annual Report, Saskatchewan Library.

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APPENDIX VI-2
PER CAPITA LEVIES IN SASKATCHEWAN LIBRARY REGIONS
1984

	Rural Municipalities	Villages[1]	Towns[1]
Lakeland	$3.50	$4.18	$4.83
Palliser	3.02	4.53/3.02	6.04/4.53
Wapiti	3.05	3.05	6.45/3.05
Wheatland	2.60	2.60	2.60
Southeast	2.52	3.36	3.36
Parkland	2.47	2.70	3.80/2.70
Chinook	1.81	2.72	3.35

Major Centres			
Regina[2]	$37.13	Swift Current	$5.88
Saskatoon[2]	27.18	Estevan	5.04
Prince Albert	14.11	Weyburn	5.04
Moose Jaw	10.58	Melville	5.05
Melfort	7.80	Esterhazy	3.99
North Battleford	7.02	Kamsack	3.97
Yorkton	6.72	Canora	3.90
Lloydminster	5.56		

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[1] Per capita levies vary according to size or legal status of communities in some regions.

[2] Regina and Saskatoon levies include the cost of capital and facility maintenance. Regional library levies do not include these costs as they are borne by the "host" municipal councils directly. In 1984 "Local Branch Operating Expenditures" in library regions equated to an average of $3.37 per capita.

SOURCE: Saskatchewan Library

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APPENDIX VI-3

PER CAPITA AND MILL RATE EQUIVALENCY OF LOCAL LIBRARY LEVIES AND PROVINCIAL GRANTS

Regional Libraries	Equalized Assessment Per Capita	Operating Revenue ($000's)	Mill Rate Equivalent			Per Capita Equivalent			% of Revenue	
			Prov. Grant	Local Levy	Total	Prov. Grant	Local Levy	Total	Prov. Grant	Local Levy
Chinook	$3,659	$ 799	2.66	0.90	3.69	$9.73	$ 3.28	$13.50	72.1%	24.3%
Lakeland	2,490	856	3.60	1.89	5.60	8.99	$ 4.70	13.96	64.4	33.7
Palliser	2,914	1,030	2.94	2.59	5.69	8.56	$ 7.56	16.58	51.6	45.6
Parkland	2,560	1,093	2.60	1.37	4.04	6.66	$ 3.50	10.34	64.5	33.8
South East	3,451	966	1.92	0.96	2.99	6.62	$ 3.33	10.30	64.3	32.3
Wapiti	2,408	1,570	2.82	2.89	5.84	6.80	$ 6.97	14.05	48.4	49.6
Wheatland	3,523	941	1.98	0.74	2.83	6.99	$ 2.60	9.98	70.0	26.0
AVERAGE/ SUB-TOTAL	$2,961	$7,251	2.53	1.53	4.17	$7.48	$ 4.54	$12.35	60.6%	36.7%
Municipal Libraries										
Lloydminster	$3,713	$ 148	0.76	1.50	2.66	$2.82	$ 5.56	$ 9.86	28.6%	56.4%
Regina	2,608	6,759	1.11	14.24	15.90	2.90	37.13	41.47	7.0	89.5
Saskatoon	2,821	4,701	1.06	9.63	10.80	3.00	27.18	30.49	9.8	89.2
AVERAGE/ SUB-TOTAL	2,757	$11,608	1.07	11.27	12.67	$2.94	$31.08	$35.91	8.4%	89.0%
AVERAGE/ TOTAL	$2,887	$18,860	2.02	4.89	7.11	$5.84	$14.13	$20.72	28.5%	68.9%

SOURCE: Library Systems, Statistical Summary 1984; Saskatchewan Library

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APPENDIX VI-4
COMPARISON OF LEAST WEALTHY AND MOST WEALTHY REGIONS GRANTS AND LOCAL LEVIES
1984

Regions	1983 Equalized Assessment Per Capita	Mill Rate Equivalency		Per Capita Equivalent	
		Provincial Grant	Local Levy	Provincial Grant	Local Levy
Least Wealthy[1]					
Wapiti	$2,408	2.82 mills	2.89 mills	$6.80	$ 6.97
Lakeland	2,490	3.60	1.89	8.99	4.70
Parkland	2,560	2.60	1.37	6.66	3.50
Palliser	2,914	2.94	2.59	8.56	7.56
AVERAGE[2]	$2,593	2.99 mills	2.19 mills	$7.75	$5.68
Most Wealthy[1]					
Southeast	$3,451	1.92	0.96	$6.62	$3.33
Wheatland	3,523	1.98	0.74	6.99	2.60
Chinook	3,659	2.66	0.90	9.73	3.28
AVERAGE[2]	$3,544	2.19 mills	0.87 mills	$7.78	$3.07

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[1] Wealth is based on the equalized assessment per capita in each region.

[2] Represents simple average and not a weighted average.

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APPENDIX VI-5
PRINCIPLES OF A PROPOSED LIBRARY GRANT FORMULA

The Commission has outlined the following formula on the basis of regional libraries, but the formula can and should also apply to municipal libraries.

The Commission proposes a formula that would have two basic components:

A. Objectively determined expenditure requirements of each regional library.

B. Objectively determined amounts which each regional library can be expected to raise from local sources.

The grant to a regional library board would constitute the difference between the expenditures required on the one hand, and the amount which local revenues can reasonably be expected to raise on the other hand.

Although there may be several components in "A", there would be only one overall grant paid. There would be no separate grants for any particular type of expenditure.

1. EXPENDITURE REQUIREMENTS

It should be emphasized that the determination of an expenditure requirement for each regional library would not entail the provincial authorities sitting in judgment on each library board, nor would it usurp the independence of each library board. What is intended is to use objective means for arriving at expenditure requirements, but to use these only for the purpose of calculating block grants which would be paid unconditionally. Library boards would be free to deviate from the expenditure levels recognized in the formula, and to set priorities which differ from those that appear to be set out in the formula, without any implications for their level of funding. Similarly, measures of local input used in calculating grants should not preclude different decisions on local inputs being made within each regional library. These concepts of differentiating between what is used in grant calculations and what local authorities may actually decide to do is widely used in the school foundation formula and in portions of the municipal revenue sharing programs.

Some "building blocks" in arriving at a "formula within a formula" to determine the level of expenditure required by each regional library are:

1) Some costs are reasonably uniform for all regional libraries and do not depend on the size of population served, the size of urban communities served, or the general dispersion of the population. Costs falling in this category might include:

   - The operation and maintenance of a basic regional office building. A flat amount could be recognized for each region, regardless of individual decisions to buy or rent facilities.
   - Certain headquarters staff, which are likely to include the regional librarian, a bookkeeper/secretary, a branch supervisor, and other staff to look after inter-library loans, block exchanges, ordering, and book processing. Again, a certain amount for headquarter salaries could be recognized, regardless of decisions on staff levels for individual regional library headquarters.

APPENDIX VI-5 (continued)
PRINCIPLES OF A PROPOSED LIBRARY GRANT FORMULA

- One or two vehicles for block exchanges and administrative purposes.
- A standard amount for costs of the regional board and executive (travel and per diems).

2) Some costs are dependent upon the total size of population served, including:

- Other staffing for headquarters. A regional library serving a larger population probably requires additional staff in the regional library headquarters.
- Once population served reaches a certain size, a larger regional office building may be required.
- Maintenance of the library collection. If there are general guidelines on volumes per capita, it is obvious that the larger the population the larger the expense to maintain the collection to standards.

3) Some costs are dependent on the distribution of the population served:

- For example, certain standards may suggest that there be branch libraries in all communities above a certain size and that bookmobiles provide services to the other communities. Two regional libraries with an identical total population may require a different mix of branch libraries and bookmobiles because the sizes of their communities are different and, in turn, this may entail a different cost.
- Branch libraries serving the cities will have different service and expenditure requirements than a branch library in a small town, in terms of professional requirements, hours of opening and services provided.
- Different sizes of communities are likely to have different requirements for hours of opening.

2. LOCAL FINANCIAL INPUT

The second part of the formula being proposed by the Commission is an objective measure of the local financial input which each regional library could be expected to contribute to the financing of its expenditure requirements. These measures of local financial input would be used only for the purpose of calculating grants and, as with expenditures, regional libraries would be able to establish whatever local revenue levels they desired and could allocate those revenues among their participating municipalities in whatever way they desired. This is important, in order that local autonomy be preserved.

There are two different ways in which local financial input could be calculated for use in the grants formula:

1) It could be based on assessment:

- It might be assumed that the best measure of the amount of local financial input which should be expected from each regional library is the amount of property assessment in the region as a whole, and that an identical "computational" mill rate could be established for each region to determine what could be raised locally in meeting the expenditure requirements. Under this option, if each region decided to spend at the level used in the grant calculation, each region and each participating municipality within the region would also be able to levy that same computational mill rate, because the grant would make up the difference between the two.
- On the other hand, it might be assumed that the level of local input would be better determined by taking into account the location of the assessment within the region and that a different number of mills of local input should be expected from different categories of municipalities, perhaps depending on the kind of library service being received by the municipalities. For example, types of municipality from which a different number of mills might be expected are:
  - — rural municipalities;
  - — village and towns served by bookmobiles;
  - — villages and towns with branch libraries;
  - — large town and small cities with branch libraries;
  - — mid-sized cities with branch libraries.

  In effect, this approach would be based on the assumption that similar mills should be paid for similar services and that a higher number of mills should be paid for higher levels of service.

The foregoing assessment options could be used in calculating the grants to the regional libraries, but a different approach could be used in dividing up the actual levies on the municipalities, depending on arrangements worked out within each region.

Municipalities with large assessments and rural municipalities in general have tended to argue against an assessment-based system of funding joint services because they feel they are financially disadvantaged by such an approach.

2) It could be based on per capita amounts:

- It might be assumed that the best measure of the amount of local input to be used in calculating the grant (as opposed to arriving at actual levies) is a straight per capita amount for the total population served by the regional library.
- On the other hand, it might be assumed that the level of recognized local input would be better determined on the basis of different per capita levies on different types of municipalities, depending on the kinds of services they receive. Different per capita amounts might be established for:
  - — rural municipalities;
  - — villages and towns served by bookmobiles;
  - — villages and towns with branch libraries;
  - — large towns and small cities with branch libraries;
  - — mid-sized cities with branch libraries.

This would be based on the assumption that the higher the level of service for a municipality, the higher the per capita levy for that municipality.

In view of the fact that current levies are now made largely on a varying per capita basis, perhaps the per capita method would be the approach most acceptable to municipalities.

Local Government Finance Commission
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APPENDIX VI-6
INTER-PROVINCIAL COMPARISON OF LIBRARY BUDGETS
1983-84

	Alberta	**Manitoba**	**Saskatchewan**
Per Capita Expenditure	$17.58	$10.42	$19.79
Provincial Library Budget as % of Provincial Budget	0.11%	0.09%	0.24%
Share of Provincial Funding of Public Library Expenditures	25.6%	21.4%	30.4%
— Municipal Libraries	23%	15% (Winnipeg)	9%
— Community Libraries	53%	—	—
— Regional Libraries	55%	40%	61%

SOURCE: Saskatchewan Library.

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APPENDIX VII-1

EXPLANATION OF ITEMS IN TABLE VII-1

ITEM 1

These figures are based on the assessed value of currently exempt provincial government property, multiplied by the average 1985 tax rate for the various types of municipalities (rural, village, town, city), in which the properties are located. Although the payment of these grants-in-lieu of taxes would result in a redistribution of revenue sharing payments among rural municipalities and among urban municipalities respectively, it would not, in itself, cause a rural/urban redistribution of revenue sharing payments.

ITEM 2

It is estimated that $9.8 million in grants-in-lieu of taxes for school purposes would be paid, based on the location of the properties and the average 1985 school mill rates in those locations.

Although most of the $9.8 million in education grants-in-lieu of taxes on these properties would be paid in regard to properties in urban municipalities, the effect of the school foundation formula would be to distribute the benefit in proportion to the assessment of the school divisions because there could be a correspondingly lower computational mill rate. The benefit to urban and rural payers of property taxes would also be in proportion to their assessment. Urban municipalities have 64% of the assessment and rural municipalities 36%, and the benefit of the payment of the $9.8 million in grants-in-lieu of taxes for school purposes would be allocated among urban and rural municipalities in those proportions.

ITEM 3

The total municipal and school portions of the additional taxes on these properties were determined on the basis of their assessed value and the 1985 tax rates in the areas in which they are located. Because all of these properties are in urban municipalities, the benefit of the municipal portion of these taxes would accrue entirely to urban municipalities. Because of the operation of the revenue sharing program, the benefit would be shared among all urban municipalities receiving foundation grants.

With regard to the school portion, the benefit would be spread out among taxpayers in urban and rural municipalities in proportion to assessment, 64% urban and 36% rural.

ITEM 4

These are the amounts required to bring about full equalization recommended in Part III of this report. As noted in Part III, it is possible to achieve full equalization with no increase in overall revenues, but it would entail unacceptably large reductions in revenues to individual municipalities. The Commission recommended that full equalization be achieved by additions of $13.0 million to rural revenue sharing, $17.0 million to urban revenue sharing and $23.5 million to the education foundation formula.

ITEM 5

These are the respective rural and urban shares of these levies.

ITEM 6

It will take approximately $1 million to increase the funding of municipal libraries to a level more compatible with assistance to regional libraries.

ITEM 7

This is the additional cost of the proposed unconditional rural capital fund over and above the amount currently going to hamlets under the Provincial Capital Fund.

Although the Commission has also recommended a new provincial capital fund for urban municipalities, this program is not listed here because it would not represent additional benefits and costs because it is a replacement of two existing programs of approxiamtely the same value.

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APPENDIX VII-2

EXPLANATION OF ITEMS IN TABLE VII-2

ITEM

1. See Item 1. in Appendix VII-1.
2. See Item 3 in Appendix VII-1.
3. These are the amounts required to be added to the revenue sharing pools, over and above the additional revenues derived by municipalities through increases in grants-in-lieu-of taxes, and taxes as outlined under Items 1. and 2., respectively, to achieve full equalization while, at the same time, ensuring that any decreases in overall revenues to individual municipalities are within acceptable limits.
4. See Item 2. in Appendix VII-1.
5. See Item 3. in Appendix VII-1.
6. These are the amounts required to be added to the school foundation formula, over and above the additional revenues derived by school divisions through increases in grants-in-lieu of taxes and taxes outlined in Items 4. and 5., respectively, to achieve full equalization while, at the same time, ensuring that any decreases in overall revenues to individual school divisions are within acceptable limits.
7. See Item 5. in Appendix VII-1.
8. See Item 6. in Appendix VII-1.
9. See Item 7. in Appendix VII-1.

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APPENDIX VIII-1
HISTORICAL COMPARISON OF EXPENDITURES

Year	Operating Expenditures ($ Millions) Urban	Rural	School[1]	% Change in Expenditures from Previous Year Urban	Rural	School
1971	$ 78.2	$ 42.8	$165.0			
1972	87.3	44.5	179.5	11.6%	4.0%	8.8%
1973	92.4	44.3	190.7	5.8	-0.4	6.2
1974	110.7	57.0	214.8	9.8	28.7	12.6
1975	137.1	68.3	249.4	23.8	19.8	16.1
1976	165.4	75.2	298.3	20.6	9.8	19.6
1977	188.7	73.2	331.2	14.1	-2.7	11.0
1978	216.8	81.8	363.0	14.9	11.7	9.6
1979	257.8	95.7	398.8	18.9	17.0	9.9
1980	284.2	104.9	440.6	10.2	9.6	10.5
1981	312.0	120.0	501.8	9.8	14.4	13.9
1982	359.6	133.3	579.1	15.2	11.1	15.4
1983	378.4	137.8	627.8	5.2	3.4	8.4
1984	405.5	138.1	672.2	7.2	0.2	7.1
1985			701.1[2]			4.3

	Urban	Rural	School
Average % Change, 1975 to 1979	18.5%	11.1%	13.2%
Average % Change, 1980 to 1984	9.5	7.7	11.1
Compound Annual % Change, 1974 to 1984	13.5%	9.4	11.4%
Number of Years Municipal Percentage Increase Exceeded School Percentage Increase	8/13	5/13	

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[1] Total Expenditures minus tuition fee payments; does not include school divisions formerly under the Department of Northern Saskatchewan.

[2] 1985 Final Budget.

SOURCES: Reports from Department of Municipal Affairs, Department of Urban Affairs, Department of Rural Development and Department of Education.

Local Government Finance Commission
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APPENDIX VIII-2

HISTORICAL COMPARISON OF EQUALIZED SCHOOL/MUNICIPAL MILL RATES

	Mill Rates[1]			Change in Mills			% Change in Mills			% by Which School Mill Rate Exceeds	
Year	Urban	Rural	School	Urban	Rural	School	Urban	Rural	School	Urban Mill Rate	Rural Mill Rate
1971	39.7	29.1	43.0	—	—	—	—	—	—	8.3%	47.8%
1972	42.6	29.6	45.0	2.9	0.5	2.0	7.3%	1.7%	4.7%	5.6	52.0
1973	44.7	30.4	45.2	2.1	0.8	0.2	4.9	1.0	0.4	1.1	48.7
1974	46.4	37.7	46.1	1.7	7.3	0.9	3.8	24.0	2.0	-0.1	22.3
1975	52.0	39.8	50.0	5.6	2.1	3.9	12.1	5.6	8.5	-3.8	25.6
1976	58.8	46.4	55.7	6.8	6.6	5.7	13.1	16.6	11.4	-5.3	20.0
1977	65.6	49.4	62.5	6.8	3.0	6.8	11.6	6.5	12.2	-4.7	26.5
1978	67.2	52.2	64.7	1.6	2.8	2.2	2.4	5.7	3.5	-3.7	23.9
1979	68.0	58.3	67.8	0.8	6.1	3.1	1.2	11.7	4.8	-0.3	16.3
1980	72.1	60.1	75.2	4.1	1.8	7.4	6.0	3.0	10.9	4.3	25.1
1981	80.1	70.0	85.3	8.0	9.9	10.1	11.1	16.5	13.4	6.5	21.8
1982	87.3	77.7	100.0	7.2	7.7	14.7	9.0	11.0	17.2	14.5	28.7
1983	92.5	82.6	107.5	5.2	4.9	7.5	6.0	6.3	7.5	16.2	30.1
1984	95.9	85.9	112.8	3.4	3.3	5.3	3.7	4.0	4.9	17.6	31.3
1985	98.1	84.8	111.7	2.2	-1.1	-1.1	2.3	-1.2	-0.9	13.9	31.7
Compound Annual Rate of Change, 1971 to 1985							6.7%	7.9%	7.1%		

[1] Note that the basis for 1985 mill rates is different because: 1) Previous year's equalization of assessment for Saskatoon and Regina has been adjusted in a major way, increasing the assessment of those cities and reducing the overall equalized mill rate accordingly and, 2) all hospital levies are excluded from the 1985 rural municipal mill rate, whereas in previous years a number of municipalities included the hospital levy as part of their own levy.

SOURCE: Departments of Urban Affairs, Rural Development and Education.

Local Government Finance Commission
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APPENDIX VIII-3

SCHOOL/MUNICIPAL EQUALIZED MILL RATE COMPARISON

6 Years of 1980's

Last 6 Years of 1970's

	Urban	Rural	School
Average Mill Rate 1970's[1]	59.67 mills	47.30 mills	57.80 mills
Average Mill Rate 1980's[2]	87.66 mills	76.85 mills	98.75 mills
Change: Average '70's to Average '80's	27.99 mills	29.55 mills	40.95 mills
% Change: Average '70's to Average '80's	46.9%	62.5%	70.8%
Average Yearly Change in Mill Rates			
1970's[1]	3.88 mills	4.65 mills	3.77 mills
1980's[2]	5.02 mills	4.42 mills	7.32 mills
Average Yearly % Change in Mill Rates			
1970's[1]	7.37%	11.68%	7.07%
1980's[2]	6.35%	6.60%	8.83%
% by Which School Mill Rate Exceeds Municipal			
Average 1970's[1]	-2.98%	22.43%	
Average 1980's[2]	12.12%	28.12%	

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[1] The 6 year period, 1974 to 1979, inclusive.

[2] The 6 year period, 1980 to 1985, inclusive.

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APPENDIX VIII-4

PROVINCIAL/LOCAL SHARE OF REVENUES OF SCHOOL DIVISIONS[1]

Year	Net Revenues[2]	Department Operating Grants	Grants as Percentage of Net Revenue	Net Proceeds From Taxes and Grants-In-Lieu	Taxes and Grants-In-Lieu as Percentage of Net Revenue
1971	$166,354,281	$ 77,786,597	46.76%	$ 82,258,126	49.45%
1972	179,553,140	88,260,999	49.16	84,554,759	47.09
1973	190,752,676	97,802,005	51.27	86,361,193	45.27
1974	214,956,228	115,318,986	53.65	92,259,766	42.92
1975	250,324,259	140,319,315	56.06	101,552,144	40.57
1976	297,639,484	168,730,703	56.69	118,465,461	39.80
1977	334,498,782	185,395,084	55.42	137,579,460	41.13
1978	368,149,210	206,222,326	56.02	149,341,623	40.57
1979	398,680,547	221,014,466	55.44	162,950,700	40.87
1980	440,978,362	235,883,232	53.49	189,084,435	42.88
1981	499,874,723	256,202,225	51.25	223,936,987	44.80
1982	584,357,843	290,623,142	49.73	272,175,148	46.58
1983	633,629,494	313,108,226	49.42	297,760,012	46.99
1984	676,555,703	328,399,517	48.54	321,733,084	47.55
1985 est.	699,545,368	347,924,655	49.74	328,145,259	46.91
1985 est.[3]	723,239,559	368,063,559	50.89	329,936,246	45.62

FOOTNOTES:

[1] The primary purpose of this table is to illustrate the changes which have taken place from year to year in the percentage of revenue of school divisions that is accounted for by provincial grants and local sources respectively. To do this, it is necessary to have consistency in the data base from year to year. In order to have this consistent data base, the data for school divisions which were formerly under the jurisdiction of the Department of Northern Saskatchewan are not included in this table, except as indicated.

[2] In arriving at total revenues, net fee receipts were used (fee revenues minus fee expenditures), so as to avoid double counting of fee revenues among school divisions.

[3] Includes data for divisions formerly under the jurisdiction of the Department of Northern Saskatchewan. Because the provincial government finances a high proportion of the expenditures of these northern school divisions, the exclusion of their data from the table has the effect of understating the overall percentage of school division revenues obtained from provincial grants by about 1%. For example, if data for the northern school divisions were included for 1985, the share of revenues from provincial grants would be 50.89%, instead of 49.74%.

SOURCE: Department of Education Annual Reports and budget analysis documents.

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APPENDIX VIII-5

PERCENTAGE CHANGES IN SCHOOL DIVISION EXPENDITURES AND GRANTS[1]

Year	Expenditures ($ millions)	Percentage Change from Prevous Year	Grants ($ millions)	Percentage Change from Previous Year
1971	$165.0	N/A	$ 77.8	N/A
1972	179.5	8.8%	88.3	13.5%
1973	190.7	6.2	97.8	10.8
1974	214.8	12.6	115.3	17.9
1975	249.4	16.1	140.3	21.7
1976	298.3	19.6	168.7	20.2
1977	331.2	11.0	185.4	9.9
1978	363.0	9.6	206.2	11.2
1979	398.8	9.9	221.0	7.2
1980	440.6	10.5	235.9	6.7
1981	501.8	13.9	256.2	8.6
1982	579.1	15.4	290.6	13.4
1983	627.8	8.4	313.1	7.7
1984	672.2	7.1	328.4	4.9
1985[2]	701.1	4.3	347.9	5.9

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[1] Data do not include divisions formerly under the Department of Northern Saskatchewan.

[2] Final budgets of school divisions.

SOURCE: Department of Education Annual Reports and budget analysis documents.

Local Government Finance Commission
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APPENDIX VIII-6

COMPARATIVE SURPLUS POSITION URBAN MUNICIPALITIES, RURAL MUNICIPALITIES, SCHOOL DIVISIONS

	Urban Municipalities	Rural Municipalities	School Divisions
Accumulated Surplus Dec., 31, 1984	$ 59.3 million	$ 50.9 million	$ 44.9 million
1984 Operating Expenditures	$405.5 million	$138.1 million	$703.5 million
Accumulated Surplus as % of 1984 Operating Expenditures	14.6%	36.9%	6.4%
1984 Net Proceeds from Taxes and Grants-in-Lieu of Taxes	$222.4 million	$ 90.9 million	$321.7 million
Accumulated Surplus as % of 1984 Net Proceeds from Taxes and Grants-in Lieu of Taxes	26.7%	56.0%	14.0%

SOURCE: Summaries of financial statements of urban and rural municipalities and school divisions prepared by the Departments of Urban Affairs, Rural Development and Education.

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APPENDIX VIII-7

REVENUES, EXPENDITURES, SURPLUS
RURAL MUNICIPALITIES, URBAN MUNICIPALITIES, SCHOOL DIVISIONS

	Urban Municipalities			Rural Municipalities			School Divisions		
Year	Revenue	Expenditures	Surplus (Deficit)	Revenue	Expenditures	Surplus (Deficit)	Revenue	Expenditures	Surplus (Deficit)
1971	$ 79,665,969	$ 78,230,076	$ 1,435,893	$ 44,384,865	$ 42,884,920	$ 1,539,945	$171,498,574	$170,095,767	$ 1,402,807
1972	89,925,231	87,312,465	2,612,766	45,897,238	44,450,434	1,446,804	185,404,763	185,374,175	30,588
1973	95,290,032	92,444,487	2,845,545	46,889,973	44,342,370	2,547,603	197,878,760	197,863,014	15,746
1974	114,530,890	110,730,053	3,800,837	59,024,785	56,976,585	2,048,200	224,726,659	224,566,491	160,168
1975	138,131,817	137,118,363	1,013,454	69,665,872	68,328,684	1,337,188	262,668,007	261,771,213	896,794
1976	167,310,220	165,423,968	1,886,252	77,413,624	75,230,549	2,183,075	313,593,537	314,267,021	(673,484)
1977	194,062,130	188,695,247	7,253,135	77,021,038	73,154,908	3,866,130	352,509,529	349,223,248	3,286,281
1978	224,132,826	216,844,519	7,288,307	84,678,897	81,847,886	2,831,011	389,144,845	384,034,004	5,110,841
1979	264,399,389	257,831,679	6,567,710	97,983,578	95,693,872	2,289,706	422,234,017	422,376,474	(142,457)
1980	289,395,223	284,254,146	5,141,077	107,760,813	104,882,837	2,877,976	466,755,608	466,348,563	407,045
1981	326,097,202	312,053,248	14,043,954	123,711,225	120,025,077	3,686,148	529,328,809	531,208,236	(1,879,427)
1982	364,111,213	359,552,739	4,558,474	136,983,364	133,337,263	3,646,101	618,786,785	613,574,317	5,212,468
1983	383,123,609	378,419,635	4,703,974	141,579,087	137,833,493	3,745,954	671,969,231	666,169,026	5,800,205
1984	414,008,056	405,545,663	8,462,393	147,086,156	138,079,239	9,006,917	707,913,763	703,531,434	4,382,329
1985	N/A	N/A	N/A	N/A	N/A	N/A	731,327,157	732,891,247	(1,564,090)

SOURCE: Summaries of financial statements of urban and rural municipalities and school divisions prepared by the Departments of Urban Affairs, Rural Development and Education.

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APPENDIX VIII-8

SURPLUS/DEFICIT
RURAL MUNICIPALITIES, URBAN MUNICIPALITIES, SCHOOL DIVISIONS

Year	Urban Municipalities			Rural Municipalities			School Divisions		
	Surplus (Deficit)	as % of Local Levy[1]	as % of Expenditures	Surplus (Deficit)	as % of Local Levy[1]	as % of Expenditures	Surplus (Deficit)	as % of Local Levy[1]	as % of Expenditures
1971	$ 1,435,893	2.6%	1.8%	$1,539,945	5.7%	3.6%	$1,402,807	1.7%	0.8%
1972	2,612,766	4.5	3.0	1,446,804	5.2	3.3	30,588	0.0	0.0
1973	2,845,545	4.6	3.1	2,547,603	8.8	5.7	15,746	0.0	0.0
1974	3,800,837	5.7	3.4	2,048,200	6.1	3.6	160,168	0.2	0.0
1975	1,013,454	1.3	0.7	1,337,188	3.4	2.0	896,794	0.9	0.3
1976	1,886,252	2.1	1.1	2,183,075	4.8	2.9	(673,484)	(0.6)	(0.2)
1977	7,253,135	6.8	3.8	3,866,130	7.8	5.3	3,286,281	2.4	0.9
1978	7,288,307	6.2	3.3	2,831,011	5.4	3.5	5,110,841	3.4	1.3
1979	6,567,710	5.2	2.5	2,289,706	4.0	2.4	(142,457)	(0.1)	(0.0)
1980	5,141,077	3.6	1.8	2,877,976	4.5	2.7	407,045	0.2	0.1
1981	14,043,954	8.4	4.5	3,686,148	5.2	3.1	(1,879,427)	(0.8)	(0.4)
1982	4,558,474	2.4	1.3	3,646,101	4.5	2.7	5,212,468	1.9	0.8
1983	4,703,974	2.3	1.2	3,745,594	4.4	2.7	5,800,205	1.9	0.9
1984	8,462,393	3.8	2.1	9,006,917	9.9	6.5	4,382,329	1.4	0.6
Average 1971-1984	5,115,269	4.2	2.4	3,075,171	5.7	3.6	1,714,993	0.9	0.4

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[1] For the purpose of this table, the local "levy" is deemed to include grants-in-lieu of taxes.

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APPENDIX VIII-9

75% PROVINCIAL FUNDING OF EDUCATION[1]
IMPACT ON MOST WEALTHY V.S. LEAST WEALTHY DIVISIONS

Division	Theoretical Mill Rate[3]	1985 Grant[4]	Grant at 75% Level[5]	$ Change in Grant[6]	% Change in Grant[7]	Change in Mill Equivalent[8]	Mills Required to Finance Recognized Expenditure[9]
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Most Wealthy Divisions[2]							
Kindersley	142.8 mills	$1,560,693	$ 3,778,046	$2,217,353	142.1%	51.2 mills	55.5 mills
Eston/Elrose	154.2	1,542,280	3,218,123	1,675,843	108.7	51.4	55.5
Leader	155.6	1,246,544	2,545,093	1,298,549	104.2	51.1	55.5
Estevan	156.0	1,724,920	3,554,482	1,829,562	106.1	51.7	55.5
Weyburn Central	157.4	1,483,235	2,978,746	1,495,511	100.8	51.2	55.5
Gull Lake	161.1	1,056,429	2,032,493	976,064	92.4	50.7	55.5
Rosetown	165.1	2,141,981	4,087,208	1,945,227	90.8	52.2	55.5
Lanigan	167.9	1,792,058	3,368,391	1,576,333	88.0	52.6	55.5
Thunder Creek	168.6	2,166,762	4,030,037	1,863,275	86.0	52.3	55.5
Oxbow	182.3	1,981,702	3,437,577	1,455,875	73.5	53.7	55.5
Average	161.1 mills	$1,669,660	$ 3,303,019	$1,633,359	99.2%	51.8 mills	55.5 mills
Least Wealthy Divisions[2]							
Deer Park	327.9	3,091,404	4,042,047	950,643	30.8	64.1	55.5
Humboldt Rural	331.4	4,796,602	6,253,018	1,456,416	30.4	64.3	55.5
Yorkdale	344.9	4,850,261	6,370,217	1,519,956	31.3	69.0	55.5
Sturgis	371.4	3,819,750	4,837,087	1,017,337	26.6	66.4	55.5
P.A. Rural	384.6	7,116,892	8,840,463	1,723,571	24.2	64.2	55.5
Parkland	425.7	4,518,874	5,696,249	1,177,375	26.1	76.5	55.5
Hudson Bay	435.2	4,607,271	5,709,956	1,102,685	23.9	73.3	55.5
Northern Lakes	452.3	4,274,024	5,259,214	985,190	23.1	74.3	55.5
Sask. Valley	487.7	9,122,960	11,318,006	2,195,046	24.1	83.8	55.5
Meadow Lake	495.2	6,577,053	8,050,248	1,473,195	22.4	80.5	55.5
Average	405.6 mills	$5,277,509	$ 6,637,650	$1,360,141	26.3%	71.6 mills	55.5 mills

APPENDIX VIII-9 (continued)

75% PROVINCIAL FUNDING OF EDUCATION[1]
IMPACT ON MOST WEALTHY V.S. LEAST WEALTHY DIVISIONS

FOOTNOTES:

[1] Grants would have to increase by approximately $174 million if the provincial share of revenues were to be increased from its 1985 level of 51% to 75%. An increase of 11.5% in the basic and incremental per pupil rates in the formula increases the aggregate grants by $56 million. The remaining increase of $118 million is brought about by a decrease of 40 mills in the computational mill rate.

[2] The wealthy school divisions are the 10 rural school divisions with the lowest theoretical mill rates, and the least wealthy school divisions are the 10 divisions with the highest theoretical mill rates, as set out in column (A).

[3] The theoretical mill rate is the mill rate a school division would require to balance its budget, if it spent at the expenditure level recognized in the foundation formula and had no provincial grants. The only revenue for the school division would be tuition and "other" revenue recognized in the formula.

The recognized expenditures and revenues used in this calculation are those used in the 1985 foundation formula except:

- Recognized debt retirement and reserve replenishment were added to the amounts;
- The basic and incremental per pupil rates were increased by 11.5%, so that overall recognized expenditures would be equal to the amounts budgeted by school divisions in 1985.

The assessment used in the calculation is the 1985 equalized assessment used in the 1985 foundation grant calculation. The formula used to calculate the theoretical mill rate is:

$$\text{Theoretical Mill Rate} = \frac{[\,(\text{Recognized Expenditure}) - (\text{Recognized Tuition and Other Revenue})]}{\text{Assessment}} \times 1{,}000$$

[4] The 1985 foundation grant, plus the amounts recognized under the capital formula for capital debt retirement and reserve replenishment.

[5] The new grant based on changes indicated in footnote 1.

[6] Column (C) minus column (B).

[7] Column (D) as a percentage of column (B).

[8] Column (D) expressed in the equivalent to mills on the local assessment. School divisions could change their mill rates by an equal and opposite number of mills, if they chose to retain the same level of expenditure.

[9] This is the mill rate which the school divisions would require if they spent at the expenditure level recognized in the foundation formula.

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APPENDIX VIII-10

75% PROVINCIAL FUNDING OF EDUCATION[1] IMPACT ON ALL SCHOOL DIVISIONS[2]

Division	Theoretical Mill Rate (A)	1985 Grant (B)	Grant at 75% Level (C)	$ Change in Grant (D)	% Change in Grant (E)	Change in Grant in Mill Equivalents (F)	Mills Required to Finance Recognized Expenditures (G)
Rural Divisions							
Arcola	235.9 mills	$3,682,880	$5,422,631	$1,739,751	47.2%	57.9 mills	55.5 mills
Assiniboia	221.1	2,668,918	4,008,485	1,339,567	50.2	55.4	55.5
Battle River	192.9	3,175,449	5,277,598	2,102,149	66.2	54.7	55.5
Battleford	236.3	2,837,583	4,138,167	1,300,584	45.8	56.8	55.5
Biggar	243.4	2,093,543	3,040,314	946,771	45.2	58.5	55.5
Blaine Lake	308.4	2,021,625	2,679,481	657,856	32.5	62.1	55.5
Borderland	195.4	2,098,152	3,395,922	1,297,770	61.9	53.5	55.5
Broadview	234.1	2,394,341	3,515,033	1,120,692	46.8	56.9	55.5
Buffalo Plains	189.8	4,092,963	6,911,899	2,818,936	68.9	54.8	55.5
Canora	232.6	2,117,852	3,162,125	1,044,273	49.3	58.5	55.5
Cupar	300.7	3,604,262	4,783,368	1,179,106	32.7	60.6	55.5
Davidson	192.7	1,825,941	3,025,722	1,199,781	65.7	54.4	55.5
Deer Park	327.9	3,091,404	4,042,047	950,643	30.8	64.1	55.5
Eastend	198.4	1,715,080	2,707,637	992,577	57.9	52.4	55.5
Estevan	156.0	1,724,920	3,554,482	1,829,562	106.1	51.7	55.5
Eston/Elrose	154.2	1,542,280	3,218,123	1,675,843	108.7	51.4	55.5
Gull Lake	161.1	1,056,429	2,032,493	976,064	92.4	50.7	55.5
Herbert	213.6	2,487,066	3,804,079	1,317,013	53.0	54.7	55.5
Hudson Bay	435.2	4,607,271	5,709,956	1,102,685	23.9	73.3	55.5
Humboldt Rural	331.4	4,796,602	6,253,018	1,456,416	30.4	64.3	55.5
Indian Head	262.3	3,036,958	4,340,972	1,304,014	42.9	62.1	55.5
Kamsack	240.3	2,095,052	3,119,531	1,024,479	48.9	60.7	55.5
Kerrobert	241.2	3,543,312	5,091,529	1,548,217	43.7	56.5	55.5
Kindersley	142.8	1,560,693	3,778,046	2,217,353	142.1	51.2	55.5
Kinistino	280.0	2,398,590	3,325,700	927,110	38.7	62.6	55.5
Lanigan	167.9	1,792,058	3,368,391	1,576,333	88.0	52.6	55.5
Last Mountain	253.6	2,613,343	3,826,796	1,213,453	46.4	62.8	55.5
Leader	155.6	1,246,544	2,545,093	1,298,549	104.2	51.1	55.5

APPENDIX VIII-10 (continued)

75% PROVINCIAL FUNDING OF EDUCATION[1]
IMPACT ON ALL SCHOOL DIVISIONS[2]

Division	Theoretical Mill Rate (A)	1985 Grant (B)	Grant at 75% Level (C)	$ Change in Grant (D)	% Change in Grant (E)	Change in Grant in Mill Equivalents (F)	Mills Required to Finance Recognized Expenditures (G)
Long Lake	225.5	2,551,387	3,830,560	1,279,173	50.1	56.8	55.5
Maple Creek	245.0	2,662,116	3,821,113	1,158,997	43.5	57.5	55.5
Meadow Lake	495.2	6,577,053	8,050,248	1,473,195	22.4	80.5	55.5
Moosomin	213.9	2,625,526	4,126,376	1,500,850	57.2	57.6	55.5
Nipawin	303.6	5,811,607	7,870,334	2,058,727	35.4	64.9	55.5
North. Lakes	452.3	4,274,024	5,259,214	985,190	23.1	74.3	55.5
Outlook	216.8	2,653,832	4,074,386	1,420,554	53.5	56.2	55.5
Oxbow	182.3	1,981,702	3,437,577	1,455,875	73.5	53.7	55.5
Parkland	425.7	4,518,874	5,696,249	1,177,375	26.1	76.5	55.5
Potashville	263.0	5,128,200	7,230,533	2,102,333	41.0	60.3	55.5
Prairie View	189.9	2,090,149	3,399,143	1,308,994	62.6	51.8	55.5
Pr. Albert Rural	384.6	7,116,892	8,840,463	1,723,571	24.2	64.2	55.5
Radville	237.1	1,804,463	2,582,813	778,350	43.1	54.7	55.5
Regina East	271.0	2,634,278	3,637,452	1,003,174	38.1	59.4	55.5
Rosetown	165.1	2,141,981	4,087,208	1,945,227	90.8	52.2	55.5
Sask. Valley	487.7	9,122,960	11,318,006	2,195,046	24.1	83.8	55.5
Saskatoon E.	254.4	4,633,697	6,601,582	1,967,885	42.5	59.3	55.5
Saskatoon W.	265.7	5,521,648	7,748,156	2,226,508	40.3	60.4	55.5
Shamrock	261.9	3,302,665	4,677,805	1,375,140	41.6	60.7	55.5
Shaunavon	201.3	2,162,576	3,417,604	1,255,028	58.0	53.5	55.5
Sturgis	371.4	3,819,750	4,837,087	1,017,337	26.6	66.4	55.5
S. Current Rural	243.8	3,095,363	4,462,767	1,367,404	44.2	57.7	55.5
Thunder Creek	168.6	2,166,762	4,030,037	1,863,275	86.0	52.3	55.5
Tiger Lily	262.8	2,605,988	3,645,096	1,039,108	39.9	59.1	55.5
Tisdale	291.4	4,200,931	5,719,244	1,518,313	36.1	62.6	55.5
Turtleford	302.4	3,205,608	4,301,754	1,096,146	34.2	62.9	55.5
Wadena	303.6	4,950,311	6,689,800	1,739,489	35.1	64.5	55.5
Wakaw	262.9	2,976,275	4,201,904	1,225,629	41.2	60.5	55.5
Weyburn Central	157.4	1,483,235	2,978,746	1,495,511	100.8	51.2	55.5
Wilkie	262.5	3,195,785	4,468,666	1,272,881	39.8	59.0	55.5

APPENDIX VIII-10 (continued)

75% PROVINCIAL FUNDING OF EDUCATION[1]
IMPACT ON ALL SCHOOL DIVISIONS[2]

Division	Theoretical Mill Rate (A)	1985 Grant (B)	Grant at 75% Level (C)	$ Change in Grant (D)	% Change in Grant (E)	Change in Grant in Mill Equivalents (F)	Mills Required to Finance Recognized Expenditures (G)
Wood River	210.6 mills	$2,032,236	$ 3,050,861	$1,018,625	50.1%	51.8 mills	55.5 mills
Yorkdale	344.9	4,850,261	6,370,217	1,519,956	31.3	69.0	55.5
Small Divisions							
Christ the King R.C.	208.6	132,254	203,584	71,330	53.9	53.6	55.5
Grand Coulee	129.1	66,463	196,869	130,406	196.2	48.7	55.5
Lemberg	265.3	456,274	624,278	168,004	36.8	56.5	55.5
Mankota Lady Fatima	318.1	76,037	103,747	27,710	36.4	70.1	55.5
Mathieu R.C.	473.9	274,942	336,530	61,588	22.4	76.6	55.5
Neudorf	282.9	427,651	570,320	142,669	33.4	56.9	55.5
Paynton	534.1	405,518	477,465	71,947	17.7	72.1	55.5
Pense	242.2	339,119	485,774	146,655	43.2	56.4	55.5
St. Alphonse R.C.	141.9	8,493	48,718	40,225	473.6	71.3	55.5
St. Gabriel's R.C.	319.1	277,883	381,380	103,497	37.2	71.5	55.5
St. Olivier	391.8	335,529	411,684	76,155	22.7	62.2	55.5
Spiritwood R.C.	558.7	416,673	497,753	81,080	19.5	82.0	55.5
Unity R.C.	235.2	343,168	514,570	171,402	49.9	59.9	55.5
Wilcox St. Augustine	1,162.2	630,603	735,177	104,574	16.6	157.4	55.5
Wilkie St. George	433.6	461,664	587,178	125,514	27.2	80.8	55.5
Balcarres	243.8	700,573	1,017,535	316,962	45.2	58.6	55.5
Gravelbourg	298.1	599,663	826,124	226,461	37.8	66.5	55.5
Grenfell	209.5	639,595	1,012,795	373,200	58.3	56.7	55.5
Humboldt Combined	232.1	1,486,897	2,285,526	798,629	53.7	61.7	55.5
Wolseley	196.6	475,402	777,036	301,634	63.4	54.8	55.5

APPENDIX VIII-10 (continued)

75% PROVINCIAL FUNDING OF EDUCATION[1]
IMPACT ON ALL SCHOOL DIVISIONS[2]

Division	Theoretical Mill Rate (A)	1985 Grant (B)	Grant at 75% Level (C)	$ Change in Grant (D)	% Change in Grant (E)	Change in Grant in Mill Equivalents (F)	Mills Required to Finance Recognized Expenditures (G)
City Divisions							
Moose Jaw #1	223.1	7,019,200	11,202,263	4,183,063	59.6	62.6	55.5
Pr. Albert#3	276.4	8,189,387	11,716,486	3,527,099	43.1	66.5	55.5
Regina #4	197.8	32,190,651	54,344,998	22,154,347	68.8	58.0	55.5
Saskatoon #13	183.2	27,039,243	48,792,206	21,752,963	80.4	57.0	55.5
Pr. Albert R.C.	242.1	4,034,326	6,097,557	2,063,231	51.1	63.1	55.5
Regina R.C.	233.5	16,147,105	24,384,629	8,237,524	51.0	60.1	55.5
St. Paul's R.C.	236.1	18,356,831	27,440,257	9,083,426	49.5	59.8	55.5
Estevan #95	232.5	1,880,947	2,893,188	1,012,241	53.8	61.9	55.5
Melfort #100	314.8	2,847,152	3,861,001	1,013,849	35.6	68.1	55.5
Melville #108	212.9	835,416	1,344,229	508,813	60.9	59.6	55.5
N. Battleford	283.6	4,294,960	6,049,304	1,754,344	40.8	66.1	55.5
S. Current	193.4	3,174,056	5,490,755	2,316,699	73.0	58.2	55.5
Weyburn #97	223.1	2,002,529	3,119,792	1,117,263	55.8	60.0	55.5
Yorkton #93	175.1	2,206,800	4,227,931	2,021,131	91.6	57.2	55.5
Estevan R.C.	317.3	1,411,201	1,930,115	518,914	36.8	70.4	55.5
M. Jaw R.C.	314.1	2,680,984	3,648,888	967,904	36.1	68.6	55.5
N. Btlfd. R.C.	348.3	2,804,831	3,723,339	918,508	32.7	72.2	55.5
St. Henry's	361.3	750,308	979,197	228,889	30.5	71.5	55.5
Swift Current R.C.	241.5	643,961	980,535	336,574	52.3	63.8	55.5
Weyburn R.C.	233.8	806,156	1,237,165	431,009	53.5	62.1	55.5
Yorkton R.C.	252.1	1,592,526	2,340,338	747,812	47.0	62.8	55.5

FOOTNOTES:

[1] See Appendix VIII-9 for explanations of the various columns.

[2] The Lloydminster Public and Roman Catholic School Divisions have been excluded because of complexities with the data for these divisions. The Humboldt High School, Roman Catholic and Public School Divisions have been combined for statistical purposes. Estlin, Gray, and Wilcox School Divisions have been excluded because they do not receive foundation grants in 1985.

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APPENDIX VIII-11

ANALYSIS OF GRANTS AS A PERCENTAGE OF 1985 BUDGETED EXPENDITURES MOST WEALTHY AND LEAST WEALTHY DIVISIONS[1]

School Division	Percentage With 1985 Grant[2]	Percentage With 65% Grant[3]	Percentage With 75% Grant[4]	Percentage With 80% Grant[5]
Most Wealthy Divisions				
Kindersley	25.1%	43.4%	60.8%	69.2%
Eston-Elrose	29.9	46.5	62.3	69.9
Leader	30.1	46.1	61.5	68.9
Estevan	31.0	48.0	63.9	71.5
Weyburn Central	33.1	50.2	66.5	74.4
Gull Lake	35.4	52.0	68.1	75.9
Rosetown	33.7	49.7	64.4	71.4
Lanigan	37.1	54.2	69.6	77.1
Thunder Creek	39.7	57.5	73.9	81.7
Oxbow	41.6	57.9	72.2	79.0
Average	33.7%	50.6%	66.3%	73.9%
Least Wealthy Divisions				
Deer Park	67.5	80.2	88.3	92.2
Humboldt Rural	63.4	75.1	82.6	86.2
Yorkdale	60.8	73.0	79.9	83.2
Sturgis	68.5	79.8	86.7	90.0
Pr. Albert Rural	67.6	77.5	83.9	87.0
Parkland	64.3	75.6	81.0	83.7
Hudson Bay	77.1	89.3	95.6	98.6
Northern Lakes	64.6	74.5	79.5	81.9
Sask. Valley	72.4	84.6	89.8	92.3
Meadow Lake	69.6	80.3	85.1	87.5
Average	67.6%	79.0%	85.2%	88.2%

FOOTNOTES:

[1] See Footnotes 2 and 3 in Appendix VIII-9 for an explanation of most wealthy and least wealthy school divisions.

[2] These are the 1985 grants as a percentage of the 1985 budgeted expenditures of school divisions.

[3] These are grants as a percentage of 1985 budgeted expenditures assuming that grants were raised to an average of 65% of total school division expenditure. To accomplish this level of grant, the 1985 basic and incremental per pupil rates were increased by 11.5% and the computational mill rate was reduced by 15 mills to 80.5 mills.

[4] These are grants as a percentage of 1985 budgeted expenditures assuming that grants were raised to an average of 75% of total school division expenditure. The 1985 basic and incremental per pupil rates in the foundation formula were raised by 11.5% and the computational mill rate was reduced by 40 mills to 55.5 mills.

[5] These are grants as a percentage of 1985 budgeted expenditures assuming that grants were raised to an average of 80% of total school division expenditures. The 1985 basic and incremental per pupil rates were raised by 11.5% and the computational mill rate was reduced by 52 mills to 43.5 mills.

In all cases, the grants used in the calculations in this appendix included the amounts recognized in 1985 for capital debt retirement and reserve replenishment.

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APPENDIX VIII-12

ANALYSIS OF GRANTS AS A PERCENTAGE OF 1985 BUDGETED EXPENDITURES ALL SCHOOL DIVISIONS[1]

School Division	Percentage with 1985 Grant	Percentage with 65% Grant	Percentage with 75% Grant	Percentage with 80% Grant
Rural S.D.				
Arcola	49.3%	62.5%	72.6%	77.4%
Assiniboia	45.9	58.6	69.0	74.0
Battle River	39.6	53.9	65.9	71.6
Battleford	51.8	65.1	75.6	80.6
Biggar	50.0	63.0	72.6	77.3
Blaine Lake	51.5	61.5	68.3	71.5
Borderland	42.1	56.0	68.2	74.1
Broadview	47.5	59.9	69.7	74.3
Buffalo Plains	40.2	55.3	67.9	74.0
Candra	54.1	69.3	80.7	86.2
Cupar	55.1	65.7	73.1	76.7
Davidson	44.1	59.8	73.1	79.5
Deer Park	67.5	80.2	88.3	92.2
Eastend	47.0	61.2	74.2	80.4
Estevan	31.0	48.0	63.9	71.5
Eston-Elrose	29.9	46.5	62.3	69.9
Gull Lake	35.4	52.0	68.1	75.9
Herbert	49.2	63.4	75.3	81.0
Hudson Bay	77.1	89.3	95.6	98.6
Humboldt Rural	63.4	75.1	82.6	86.2
Indian Head	51.3	64.5	73.4	77.6
Kamsack	46.4	59.8	69.1	73.6
Kerrobert	55.1	68.5	79.1	84.2
Kindersley	25.1	43.4	60.8	69.2
Kinistino	52.4	64.6	72.7	76.6
Lanigan	37.1	54.2	69.6	77.1
Last Mountain	42.7	54.6	62.5	66.3
Leader	30.1	46.1	61.5	68.9
Long Lake	52.1	66.7	78.2	83.7
Maple Creek	56.5	70.4	81.1	86.2
Meadow Lake	69.6	80.3	85.1	87.5
Moosomin	46.5	61.5	73.0	78.6
Nipawin	65.4	79.7	88.6	92.9
Northern Lakes	64.6	74.5	79.5	81.9
Outlook	51.0	66.1	78.3	84.1
Oxbow	41.6	57.9	72.2	79.0
Parkland	64.3	75.6	81.0	83.7
Potashville	59.7	74.0	84.1	89.0
Prairie View	41.8	55.3	68.0	74.0
Prince Albert Rural	67.6	77.5	83.9	87.0
Radville	46.3	57.2	66.3	70.7
Regina East	57.2	69.8	78.9	83.3
Rosetown	33.7	49.7	64.4	71.4
Saskatoon East	55.3	68.9	78.8	83.6
Saskatoon West	55.0	68.0	77.2	81.6
Sask. Valley	72.4	84.6	89.8	92.3
Shamrock	61.0	75.9	86.4	91.4
Shaunavon	43.4	56.8	68.5	74.2
Sturgis	68.5	79.8	86.7	90.0

APPENDIX VIII-12 (continued)

ANALYSIS OF GRANTS AS A PERCENTAGE OF 1985 BUDGETED EXPENDITURES
ALL SCHOOL DIVISIONS[1]

School Division	Percentage with 1985 Grant	Percentage with 65% Grant	Percentage with 75% Grant	Percentage with 80% Grant
Swift Current Rural	54.2%	67.8%	78.2%	83.1%
Thunder Creek	39.7	57.5	73.9	81.7
Tiger Lily	52.8	65.0	73.9	78.1
Tisdale	62.2	75.7	84.7	89.0
Turtleford	62.0	74.8	83.3	87.3
Wadena	56.8	69.1	76.8	80.5
Wakaw	53.8	66.8	75.9	80.3
Weyburn Central	33.1	50.2	66.5	74.4
Wilkie	52.4	64.4	73.3	77.5
Wood River	52.0	65.5	78.1	84.2
Yorkdale	60.8	73.0	79.9	83.2
Small S.D.				
Christ the King RCS No. 83	28.4	36.6	43.8	47.2
Grand Coulee No. 110	19.4	37.9	57.3	66.7
Lemberg No. 106	59.4	71.6	81.3	86.0
Mankota Lady Fatima No. 90	58.2	71.9	79.4	83.1
Mathieu RCS No. 7	70.7	81.4	86.5	89.0
Neudorf No. 96	62.3	73.9	83.1	87.4
Paynton No. .102	68.1	76.0	80.2	82.2
Pense No. 98	58.9	73.1	84.4	89.8
St. Alphonese RCS No. 2	3.7	15.0	21.2	24.1
St. Gabriel's RCS No. 23	64.2	79.7	88.1	92.1
St. Olivier No. 12	54.4	61.8	66.8	69.2
Spiritwood RCS No. 82	78.4	89.0	93.7	95.9
Unity RCS No. 88	51.5	66.5	77.2	82.4
Wilcox-St. Augustine No. 91	88.7	101.1	103.4	104.5
Wilkie St. George RCS No. 85	68.9	81.9	87.7	90.5
Town S.D.				
Balcarres No. 87	40.2	50.7	58.4	62.2
Gravelbourg No. 109	46.4	57.3	63.9	67.1
Grenfell No. 92	44.9	59.6	71.2	76.7
Humboldt Combined Div.	43.8	57.8	67.4	71.9
Wolseley No. 25	42.3	57.0	69.2	75.1
City S.D.				
Moose Jaw No. 1	41.6	56.4	66.3	71.1
Prince Albert No. 3	52.7	66.8	75.4	79.5
Regina No. 4	40.0	55.7	67.6	73.3
Saskatoon No. 13	36.4	52.9	65.7	71.9
Prince Albert RCS No. 6	43.0	56.3	65.0	69.2
Regina RCS No. 81	48.5	63.0	73.3	78.2
St. Paul's RCS No. 20	49.1	63.2	73.4	78.2
Estevan No. 95	44.7	59.1	68.8	73.5
Melfort No. 100	56.7	69.5	76.9	80.5
Melville No. 108	38.3	51.9	61.7	66.4
North Battleford No. 103	57.5	72.1	80.9	85.2
Swift Current No. 94	32.9	46.5	56.8	61.8

APPENDIX VIII-12 (continued)
ANALYSIS OF GRANTS AS A PERCENTAGE OF 1985 BUDGETED EXPENDITURES ALL SCHOOL DIVISIONS[1]

School Division	Percentage with 1985 Grant	Percentage with 65% Grant	Percentage with 75% Grant	Percentage with 80% Grant
Weyburn No. 97	37.6%	49.6%	58.5%	62.7%
Yorkton No. 93	23.6	35.7	45.2	49.7
Estevan RCS No. 27	56.7	70.1	77.5	81.1
Moose Jaw RCS No. 22	56.6	69.6	77.0	80.6
North Battleford RCS No. 16	65.9	80.0	87.5	91.0
St. Henry's RCS No. 5	54.1	64.8	70.6	73.4
Swift Current RCS No. 11	43.4	57.2	66.1	70.3
Weyburn RCS No. 84	50.6	66.8	77.7	82.9
Yorkton RCS No. 86	48.8	62.6	71.8	76.1

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[1] Please refer to Appendix VIII—11 for an explanation; of column headings.

See Appendix VIII-10 for a list of excluded school divisions.

APPENDIX VIII-13

ANALYSIS OF GRANTS AS A PERCENTAGE OF REVISED RECOGNIZED EXPENDITURES MOST WEALTHY AND LEAST WEALTHY DIVISIONS[1]

School Division	Percentage With 1985 Grant[2]	Percentage With 65% Grant[3]	Percentage With 75% Grant[4]	Percentage With 80% Grant[5]
Most Wealthy Divisions				
Kindersley	24.8%	42.9%	60.1%	68.4%
Eston-Elrose	30.7	47.8	64.0	71.8
Leader	31.3	48.0	64.0	71.7
Estevan	31.3	48.4	64.4	72.1
Weyburn Central	32.2	48.8	64.6	72.3
Gull Lake	34.1	50.0	65.6	73.0
Rosetown	34.8	51.3	66.4	73.7
Lanigan	35.6	52.0	66.9	74.0
Thunder Creek	36.1	52.2	67.1	74.2
Oxbow	40.1	55.9	69.6	76.1
Average	33.1%	49.7%	65.3%	72.7%
Least Wealthy Divisions				
Deer Park	63.0%	74.8%	82.3%	86.0%
Humboldt Rural	63.2	74.9	82.4	85.9
Yorkdale	59.0	70.8	77.4	80.7
Sturgis	66.5	77.5	84.2	87.4
Pr. Albert Rural	66.3	76.1	82.3	85.3
Parkland	64.2	75.5	81.0	83.6
Hudson Bay	70.4	81.5	87.2	90.0
Northern Lakes	67.1	77.4	82.6	85.1
Sask. Valley	68.1	79.6	84.5	86.8
Meadow Lake	67.9	78.4	83.1	85.4
Average	65.6%	76.6%	82.7%	85.6%

FOOTNOTES:

[1] See footnotes 2 and 3 in Appendix III-9 for an explanation of most wealthy and least wealthy school divisions.

[2] These are the 1985 grants as a percentage of the revised recognized expenditures for school divisions.

[3] These are grants as a percentage of revised recognized expenditures assuming that grants were raised to an average of 65% of total school division expenditures. To accomplish this level of grant, the 1985 basic and incremental per pupil rates were increased by 11.5% and computational mill rate was reduced by 15 mills to 80.5 mills.

[4] These are grants as a percentage of revised recognized expenditures assuming grants were raised to an average of 75% of total school division expenditures. The 1985 basic and incremental per pupil rates in the foundation formula were increased by 11.5% and the computational mill rate was reduced by 40 mills to 55.5 mills.

[5] These are grants as a percentage of revised recognized expenditures, assuming that grants were raised to an average of 80% of total school division expenditures. The 1985 basic and incremental per pupil rates in the foundation formula were increased by 11.5% and the computational mill rate was reduced by 52 mills to 43.5 mills.

In all cases, the grants in the calculations in this appendix included the amounts recognized in 1985 for capital debt retirement and reserve replenishment.

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APPENDIX VIII-14

ANALYSIS OF GRANTS AS A PERCENTAGE OF REVISED RECOGNIZED EXPENDITURES ALL SCHOOL DIVISIONS[1]

School Division	Percentage with 1985 Grant	Percentage with 65% Grant	Percentage with 75% Grant	Percentage with 80% Grant
Rural S.D.				
Arcola	51.1%	64.8%	75.2%	80.2%
Assiniboia	49.8	63.5	74.8	80.2
Battle River	42.9	58.3	71.2	77.5
Battleford	51.8	65.1	75.6	80.6
Biggar	50.7	63.8	73.6	78.3
Blaine Lake	53.3	63.7	70.7	74.0
Borderland	44.2	58.7	71.5	77.6
Broadview	47.6	60.0	69.8	74.5
Buffalo Plains	41.6	57.2	70.3	76.6
Candra	51.0	65.4	76.1	81.3
Cupar	55.5	66.2	73.7	77.3
Davidson	43.0	58.2	71.2	77.4
Deer Park	63.0	74.8	82.3	86.0
Eastend	45.6	59.4	72.0	78.1
Estevan	31.3	48.4	64.4	72.1
Eston-Elrose	30.7	47.8	64.0	71.8
Gull Lake	34.1	50.0	65.6	73.0
Herbert	48.4	62.3	74.0	79.6
Hudson Bay	70.4	81.5	87.2	90.0
Humboldt Rural	63.2	74.9	82.4	85.9
Indian Head	51.8	65.1	74.0	78.3
Kamsack	45.9	59.1	68.3	72.7
Kerrobert	53.6	66.6	77.0	82.0
Kindersley	24.8	42.9	60.1	68.4
Kinistino	54.1	66.7	75.0	79.0
Lanigan	35.6	52.0	66.9	74.0
Last Mountain	45.2	57.9	66.2	70.2
Leader	31.3	48.0	64.0	71.7
Long Lake	50.2	64.3	75.4	80.7
Maple Creek	53.3	66.4	76.5	81.3
Meadow Lake	67.9	78.4	83.1	85.4
Moosomin	47.1	62.4	74.1	79.7
Nipawin	59.9	72.9	81.1	85.0
Northern Lakes	67.1	77.4	82.6	85.1
Outlook	48.5	62.9	74.4	79.9
Oxbow	40.1	55.9	69.6	76.1
Parkland	64.2	75.5	81.0	83.6
Potashville	56.0	69.4	78.9	83.5
Prairie View	43.5	57.6	70.8	77.1
Prince Albert Rural	66.3	76.1	82.3	85.3
Radville	52.4	64.7	75.0	79.9
Regina East	56.3	68.7	77.7	82.0
Rosetown	34.8	51.3	66.4	73.7
Saskatoon East	54.4	67.8	77.5	82.2
Saskatoon West	56.3	69.6	79.0	83.5
Sask. Valley	68.1	79.6	84.5	86.8
Shamrock	55.5	69.1	78.7	83.2
Shaunavon	45.0	58.9	71.1	76.9
Sturgis	66.5	77.5	84.2	87.4

APPENDIX VIII-14 (continued)

ANALYSIS OF GRANTS AS A PERCENTAGE OF REVISED RECOGNIZED EXPENDITURES ALL SCHOOL DIVISIONS[1]

School Division	Percentage with 1985 Grant	Percentage with 65% Grant	Percentage with 75% Grant	Percentage with 80% Grant
Swift Current Rural	53.6%	67.0%	77.2%	82.1%
Thunder Creek	36.1	52.2	67.1	74.2
Tiger Lily	54.4	66.9	76.1	80.5
Tisdale	59.5	72.4	81.0	85.1
Turtleford	59.3	71.5	79.6	83.5
Wadena	56.9	69.2	76.9	80.7
Wakaw	55.0	68.3	77.7	82.2
Weyburn Central	32.2	48.8	64.6	72.3
Wilkie	53.6	65.9	74.9	79.2
Wood River	49.0	61.6	73.5	79.2
Yorkdale	59.0	70.8	77.4	80.7
Small S.D.				
Christ the King RCS No. 83	29.7	38.2	45.6	49.2
Grand Coulee No. 110	19.2	37.6	57.0	66.3
Lemberg No. 106	57.8	69.7	79.1	83.6
Mankota Lady Fatima No. 90	60.5	74.7	82.6	86.3
Mathieu RCS No. 7	67.4	77.6	82.5	84.9
Neudorf No. 96	60.3	71.5	80.4	84.6
Paynton No. .102	68.9	76.9	81.1	83.2
Pense No. 98	53.8	66.8	77.1	82.0
St. Alphonese RCS No. 2	4.2	17.0	24.0	27.3
St. Gabriel's RCS No. 23	60.2	74.8	82.6	86.4
St. Olivier No. 12	58.2	66.1	71.4	73.9
Spiritwood RCS No. 82	75.4	85.6	90.1	92.2
Unity RCS No. 88	51.0	65.8	76.4	81.5
Wilcox-St. Augustine No. 91	81.7	93.1	95.2	96.3
Wilkie St. George RCS No. 85	68.6	81.4	87.2	90.0
Town S.D.				
Balcarres No. 87	41.3	52.0	59.9	63.7
Gravelbourg No. 109	44.7	55.2	61.5	64.6
Grenfell No. 92	44.9	59.5	71.1	76.6
Humboldt Combined Div.	43.3	57.2	66.6	71.1
Wolseley No. 25	41.0	55.2	67.0	72.8
City S.D.				
Moose Jaw No. 1	43.9	59.6	70.0	75.1
Prince Albert No. 3	54.0	68.6	77.3	81.5
Regina No. 4	41.9	58.3	70.7	76.7
Saskatoon No. 13	37.7	54.7	68.0	74.4
Prince Albert RCS No. 6	46.5	60.9	70.3	74.8
Regina RCS No. 81	49.7	64.6	75.1	80.2
St. Paul's RCS No. 20	50.1	64.5	74.8	79.8
Estevan No. 95	48.0	63.4	73.9	78.9
Melfort No. 100	60.7	74.4	82.4	86.2
Melville No. 108	35.6	48.2	57.3	61.7
North Battleford No. 103	55.2	69.2	77.7	81.8
Swift Current No. 94	37.4	53.0	64.8	70.4

APPENDIX VIII-14 (continued)

ANALYSIS OF GRANTS AS A PERCENTAGE OF REVISED RECOGNIZED EXPENDITURES ALL SCHOOL DIVISIONS[1]

School Division	Percentage with 1985 Grant	Percentage with 65% Grant	Percentage with 75% Grant	Percentage with 80% Grant
Weyburn No. 97	37.8%	50.2%	59.0%	63.2%
Yorkton No. 93	25.7	39.0	49.3	54.3
Estevan RCS No. 27	60.2	74.4	82.3	86.1
Moose Jaw RCS No. 22	58.9	72.5	80.2	83.9
North Battleford RCS No. 16	61.4	74.6	81.6	84.9
St. Henry's RCS No. 5	54.4	61.6	67.1	69.7
Swift Current RCS No. 11	48.0	63.3	73.1	77.8
Weyburn RCS No. 84	47.2	62.2	72.4	77.3
Yorkton RCS No. 86	51.2	65.7	75.2	79.8

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[1] Please refer to Appendix VIII—13 for an explanation of column headings.

See Appendix VIII-10 for a list of excluded school divisions.

APPENDIX VIII-15

URBAN AND RURAL EQUALIZED ASSESSMENT

Year	Urban Equalized Assessment	% Change from Previous Year	Rural Equalized Assessment[1]	% Change from Previous Year	Rural Share of Total Equalized Assessment	Urban Share of Total Equalized Assessment
	($ million)		($ million)			
1971	$1,014.6	-	$ 881.4	-	46.49%	53.51%
1972	1,027.3	1.25%	891.2	1.11%	46.45	53.55
1973	1,054.4	2.64	901.7	1.12	46.10	53.90
1974	1,092.3	3.59	916.4	1.63	45.62	54.38
1975	1,135.7	3.97	928.8	1.35	44.99	55.01
1976	1,198.9	5.56	935.4	0.71	43.83	56.17
1977	1,276.1	6.44	949.7	1.53	42.67	57.33
1978	1,353.7	6.08	960.6	1.15	41.51	58.49
1979	1,418.5	4.79	973.3	1.32	40.69	59.31
1980	1,518.2	7.03	991.8	1.90	39.51	60.49
1981	1,600.4	5.41	1,011.2	1.96	38.72	61.28
1982	1,667.4	4.19	1,025.6	1.42	38.08	61.92
1983	1,684.6	1.03	1,033.6	0.78	38.03	61.97
1984	1,762.1	4.60	1,040.9	0.71	37.14	62.86
1985	1,862.8	5.71	1,055.5	1.40	36.17	63.83
Compound Average Annual Change	4.44%		1.30%			

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[1] Includes LIDs for the period 1971 to 1977.

SOURCE: Saskatchewan Assessment Authority.

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APPENDIX VIII-16

RELATIVE IMPORTANCE OF FARMLAND ASSESSMENT

Year	Assessment of Farmland	Total Rural Municipal Assessment	Farmland as a % of Total Rural Assessment
1971	$713,381,338	$ 881,442,863	80.93%
1972	717,369,946	891,208,198	80.49
1973	720,572,876	901,678,583	79.91
1974	725,268,343	916,424,721	79.14
1975	729,718,651	928,814,606	78.56
1976	731,307,087	935,427,155	78.18
1977	736,975,824	949,683,656	77.60
1978	742,613,555	960,620,001	77.30
1979	747,575,810	973,275,966	76.81
1980	750,639,529	991,798,146	75.68
1981	753,538,238	1,011,170,392	74.52
1982	761,051,368	1,025,610,239	74.20
1983	762,173,469	1,033,551,277	73.74
Compound Average Annual Percentage Change	0.55%	1.34%	

Data includes L.I.D.s for the period 1971 to 1977, inclusive. The Saskatchewan Assessment Authority is unable to provide data on the assessment of farmland for 1984 and 1985.

SOURCE: Saskatchewan Assessment Authority.

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